G. R. S. IX-5]

Previous references.

97-3-12-(4974)
9752-13-1-9
-73-16-1
-159-16-(11-14)
-159-16-15

Later references.

9733-21-405

192 /.

(97)

File No.

Serial Nos. 18, 30, 44
42-47/+47(a)

GENERAL AND REVENUE SECRETARIAT

16 8/5

Serial Nos. ~~18, 33, 60, 76, 42, 47, 479~~

Part B for

SUBJECT.

Arrangements for the settlement of the matter regarding remittance to London of the Bombay Ry. Sinking Fund.

To The Comptroller re P.C.S. 34.7.21.
- forwards for information copy of Letter no. 597 & 28.4/21 from the Indian Office stating that the amount has been deposited at the Bank of England.

WD 2233—GPD—20,000—11-6-20

G. R. S. III—1]

GENERAL AND REVENUE SECRETARIAT.

(98)

NOTES.

File No. 55-19

FILE HEADING

Purchase of Debenture stock

From

No.	Dated	Received
Diary No.	Enclos. / Spare Copies.	Serial No.

BRIEF ABSTRACT OF LETTER.

NOTES AND ORDERS.

URGENT.

DEWAN'S OFFICE.
Recd. on NOV 12 1919
Reg. No. 3218

FINANCIAL SECRETARIAT,

Dated Bangalore, the 27th October 1919.

My dear Sir,

The Exchange problem is still exercising my mind and I have been considering whether the high rate cannot by some means be turned to our advantage. An idea has struck me and I hasten to report it to you. It has reference to our Railway Sterling Loan of £1,200,000 and the attached note explains the case. I request the issue - immediately of the cable to Messrs. Coutts & Co., referred to in para 8 of the note may be approved. The policy of buying up the Debentures has already been sanctioned and the cablegram only asks the Bankers to arrange for prompt purchases in view of the benefits to be gained under the existing conditions of Exchange and of the - Security market

Yours sincerely,

M Venkatarao

Rajasevadhurina Sirdar M. KANTARAJ URS, B.A., C.S.I.,
Dewan of Mysore.

REDEMPTION OF

THE MYSORE RAILWAY STERLING LOAN.

.....

Vide letter No.1458 of 21st August 1916 from the Comptroller. Flag G.

In August 1916, I suggested the purchase of Debenture Stock of our Railway Sterling Loan of £1,200,000 with a view to take advantage of the large discount at which it was selling. Mr. Datta was consulted about my suggestion and he strongly supported it. Government approved of the proposal and authorised the purchase of as much of the Debenture Stock as could be had at a price not higher than 77 per cent. Accordingly, Stock of the nominal value of £221,880 has been bought up at a cost of £167,554-10-3 and the transaction viewed as an investment yields a return of about 5⅓%. This debt being redeemable at par in 1936, the purchases so far made have resulted in a gain on redemption value of about Rs.7½ lakhs, taking the exchange rate at 1s.4d. and allowing for the difference of about 1/6th per cent. between the present market rate and the rate of return referred to above.

Vide para.12 of his note dated 12th February 1917 on "Redemption of the Mysore Railway Loan." Flag A.

2. The balance of the Loan still in the hands of Debenture holders is £1,200,000 - £221,880 = £978,120. The Stock has further depreciated in value and the present quotation is about 71 per cent. and at this rate a cash outlay of about 71/100 x £978,120 or £694,465 will purchase the whole balance of the Loan.

3. The large discount of about 29 per cent. is not the only consideration to - induce us to purchase as much of the Stock as can be had and as promptly as it may be possible to get it. There is also another factor now which is very much in our favour in the purchase of this Stock and I refer to the prevailing high rate of exchange. The present is thus a most favourable oppor tunity to discharge our Sterling obligation. I have stated in the preceding paragraph - that a sum of £694,465 would suffice to buy up the whole balance of debt of £978,120. Now, at the Exchange rate of 2 sh. it is enough to provide a sum of Rs.69,44,650 for purchasing the entire balance of the Deben- ture Stock. If we can discharge the debt under the conditions which now prevail, the increase in the rate of exchange from 1s.4d to 2sh. enables us to reduce our debt by - one-third and of the remaining two-thirds, we need only pay about 71 per cent. as the Stock is selling at a discount of about 29 per cent. By the combined effect of these two factors the debt is reduced to $(100-33\frac{1}{3}) \times \frac{71}{100} = 47\frac{1}{3}$ per cent.

4. The next question for consideration is how are we to find the amount required for purchasing the balance of the Debenture Stock. As stated in para 3 above, this - amount is about Rs.$69\frac{1}{2}$ lakhs. The nominal

@ Statement B. Flag B.

value of the securities held to the credit of the Sinking Fund for this Loan is - Rs.109,94,000@ and the approximate market - value of this holding is about Rs.71 1/3 lakhs. The money required for buying up the whole debt is therefore available and we have ~~xxxxx~~ neither to borrow nor make any special arrangements for financing the purchase of the Stock. The securities of the Sinking Fund, have, no doubt to be sold for paying for purchases but this is not - likely to present much difficulty as I shall explain presently.

5. Exceptionally favourable circumstances have given us the opportunity of wiping out more than one half of our debt and for repaying the other half we can find the required amount without any strain on our resources and without any disturbance of our financial arrangements. A debtor is seldom in such a position and I think we should ~~xx~~ take as prompt action as possible to reap the benefits which unique conditions have brought within our reach.

6. How we should arrange to purchase the Stock is the next point to be considered. It will be seen from Statements A that since July 1918 the response to our - offer to buy the stock has been poor. We have not made any special efforts, so far, to find out the holders of the Debentures and induce them to sell their stock. We have left the entire arrangement for purchase in the hands of our Bankers, Messrs.

Messrs. Coutts & Co., and they have simply given instructions to their Brokers to buy up whatever quantity of this Stock is offered for sale in the market. In view of the very substantial gain to us on purchases under existing conditions, I think we should make vigourous efforts to find out the holders wherever they are and induce them to sell their stock. It is true that a seller is likely to ask for a higher price when there is demand for his holding. But the value of any security is after all dependent on the general conditions of Money and Security markets and a seller cannot ask for a price much higher than what other securities which are of similar yield and stability of capital value command in the market. At the most a seller may ask for a little more than the market rate and considering the appreciable gain to us, we may well pay such increased price. If the price demanded is unreasonable, we can of course refuse to buy. The purchases may continue to be made in the name of our Bankers and the Brokers may be told not to disclose that the Stock is bought for the Mysore Government, and the temptation to ask for an unreasonable price when the debtor offers to buy up his debt will not therefore influence the creditor holders of the Stock. As for the advantage which the high rate of exchange gives us it is beyond the power of the Stock holders to influence it in any way, either in their favour or against us

7. The names and addresses of the holders of the Stock can be ascertained from th books of the Home Board Office of the Madras and Southern Mahratta Railway Company and we may request the Company to give us a list of such holders. We may place the list in the hands of our Bankers and ask them to instruct their Brokers in the different places where the holders happen to be to try their best to buy up as much of the Stock as can possibly be got. If any holder refuses to part with his Stock for a reasonable price, there is of course no help, but such cases will be rare and if we make serious efforts, I think, we may succeed in purchasing a very large part of the Stock.

8. Before however requesting the Madras and Southern Mahratta Railway Company to give us a list of the Stock holders as proposed in the preceding para, I would at once telegraph to Messrs. Coutts & Co. as in the attached draft cablegram, pointing out the slackness in purchase of Debentures and enquiring if effective arrangements can not be made for buying them more quickly and in bigger lots and if a list of Stock holders would help in making prompter purchases. If the Bankers say that a list of holders would be useful, we may write or cable to the Railway Company's Office in London and ask them to give a list to Messrs. Coutts & Co. We may also consider if it is not desirable to arrange for the purchase

of Debentures through other respectable firms of Stock Brokers in London in addition to those employed by Messrs. Coutts & Co., for this purpose, so that effective steps may be taken to get as much of the Stock as possible and also as quickly as practicable.

9. If it is possible to buy up the whole balance of the Stock, under the existing conditions, the debt will be extinguished 16 years earlier and we shall save the interest charge on it for the whole of this period and the annual gain will be £978,120 x 4/100 = £39,125. The value of this yearly addition accumulated for 16 years at Compound interest at 5½ per cent is £964,040, which at 2 sh. is Rs. 96½ lakhs.

I have proposed to finance the purchase of the Stock from the Sinking Fund of 71 1/3 lakhs. This fund is intended for the redemption of the whole loan of £1,200,000 but the balance to be bought up is only £978,120 which is 81.5% of the total debt. We can use only 81.5% of Rs.71 1/3 lakhs, i.e., 58 lakhs out of the Sinking Fund for the suggested purchases which require Rs.69½ lakhs. The difference of Rs.11½ lakhs has to be treated as borrowed for the purpose. Assuming that the sum is borrowed at 5½ per cent. the total liability on account of this loan for 16 years at Compound interest will be

Rs.

Rs.27,08,480 or £270,848 at 2 sh. Making allowance for this liability, the net gain on the transaction will be £964,040-270,848 = £693,192, which at 2 sh. is Rs.69¼ lakhs. As stated in para 4 supra, no borrowing will, however, be necessary on this account and the above calculation is made only to show the correct gain by extinguishing the debt 16 years before the prescribed period. The discharge of the debt now, will mean an addition of £39,125-11,164 @ - £27,961 = £27,961 Rs.2,79,610 at 2sh. In the present state of our finances an annual addition to our revenues of nearly 3 lakhs would be most welcome. If the exchange rate is less than 2 sh, the addition will be correspondingly larger. The deficit with which we are now faced is mostly the result of the enhanced rate of exchange and if we can extinguish our Sterling debt by paying for its purchase in appreciated rupees, we shall derive the maximum advantage from the high rate of Exchange.

(the annual equated instalment for discharging with interest the loan of 11½ lakhs.)

10. ~~Apart~~ Apart from the benefit referre to in para 9 supra, there are other advantages from the suggestion made in this note Our Sinking Fund investment is in rupee -- securities and if we wait till 1936 for redeeming the Loan the following factors may affect our position then:

(1) A part of the Sinking Fund has depreciated in value as the 3 and 3½ per cent. paper was bought at much higher rates than those now prevailing. There has also been some gain on investments at higher rates than 3½ per cent. which was originally as-

assumed. What will be the market value of the holding in 1936 is uncertain and if it h happens to be less than the amouht required we shall have to make good the deficit. Th Government of India have issued War loans of large magnitude carrying interest at 5½ per cent. free of income tax and the currency of the last loan extends up to 1945-55. The demand for industrial capital in the future will be very great and the rate of interest may even go up. With large quantities of securities bearing 5½ or perhaps even higher rates of interest in the market, the prices of the 3, 3½ and 4 per cent. paper are not likely to rise above the present level by the year 1936.

(2) The sale of large quantities of securities may depress the market and there is this risk also in the disposal of our holding, when the redemption of the Loan falls due.

(3) We do not know what will be the rate of exchange in 1936. The Sinking Fund being in rupee securities, the proceeds of their sale have to beremitted to England, and if the Exchange rate is less than 2 sh. we would lose the advantage which we can get now. Of course if the rate then is higher than 2sh. we stand to gain but thoug nothing can be stated definitely regarding the future course of exchange, the probability is that the rate may not be above 2sh. But even if the exchange factor may be more in our favour in 1936, the debt to be discharged

charged will be about 29 per cent. more as the redemption should be at par. The present high rate of exchange is in itself a very great advantage and it will only be speculation to hope for a higher rate still in 1936.

For these reasons, we shall avoid all the uncertainties and risks relating to the three factors noted above, if we can purchase the Stock, when the present favourable conditions continue.

11. If for any reasons, it is not possible to buy up the whole of our Loan it is desirable to purchase for the balance some other Sterling securities which offer the same advantages and can serve the same purpose. and I shall study this aspect of the proposal

12. If we succeed in getting the whole or a large part of Debenture Stock, we shall have to finance the purchase from the proceeds of sale of securities held to the -- credit of the Sinking Fund. It will be -- seen from Statement B, that these securities consist of the 3, 3½ and 4 per cent. Government of India Promissory notes. These securities are heavily depreciated and though the prospects of their rising in value are extremely remote it is not advisable to sell them, if it is possible to dispose of instead other securities which can be sold more easily and with less loss.

~~easily and with less loss.~~ We have to keep securities sufficient to give us when required about 100 lakhs, as a ~~liquid~~ reserve against our various liabilities. This reserve is more or less of a permanent character and it is best to hold it in the form of securities which ~~are not~~ now happen to be largely depreciated so that if at any distant date, they should rise in value, we may have the chance of benefiting from such improvement. It will be seen from Statement C that we hold 5 and 5½ per cent, War Bonds of the face value of ~~Rsxxxxxxxxxx~~ Rs.72,55,500, and of the approximate market value of Rs. 68,52,073 which sum is only about a lakh ~~is~~ less than the amount required for buying up the entire balance of the Debenture Stock. For purchasing this Stock, I would therefore suggest the sale of these War Bonds and so far as our Surplus Investment Account is concerned, the sold securities may be replaced by the 3, 3½ and 4 per cent. notes released from the Railway Loan Sinking Fund

13. The proposals submitted in this note are unaffected by the suggested remittance to India of our present Gold balance with Messrs. Coutts & Co., about which we have addressed the Government of India. If we can get that balance ~~accordingly~~ to India according to the arrangement proposed by us we can finance the purchase of this Stock from the Gold revenue received hereafter to our credit in London or from loans which we can take from the Bankers on the security

security of the Debenture Stock already - bought and to be bought or from remittances made from India of the proceeds of the sale of securities on behalf of the Sinking Fund. Messrs. Coutts & Co., have agreed to lend us 80 per cent. of market value of these securities and calculated on the whole loan of £1,200,000, we can get a loan from the Bankers of £1,200,000 x $\frac{71}{100}$ x $\frac{80}{100}$ = £681,600, which is only £12,865 less than the required amount of £ 694,465. It will thus be seen that the entire purchase can be financed from a temporary loan from the Bankers, which can be repaid as we go on selling our rupee securities. Messrs. Coutt & Co., have agreed to charge for the loan $\frac{1}{2}$ per cent. more than the Bank of England rate and the rate we have to pay will not exceed $5\frac{1}{2}$ per cent. and this is also the rate which our investments in India now yield.

14. To sum up:

(1) Our Sterling Railway Loan Debentures are now selling at a discount of about 29 % The present high rate of exchange can be - turned to our advantage if we can arrange for buying up our debt and pay for the purchase in appreciated rupees. The combined effect of the two factors is that our debt is reduced to about $47\frac{1}{3}$ per cent. and we - have accordingly an exceptionally favourable opportunity to discharge our Sterling obligation.

(2) The

(2) The market value of the Sinking Fund held for the redemption of this Loan is Rs.71$\frac{1}{3}$ lakhs and this sum is more than sufficient for financing the purchase of the whole balance of the Loan.

(3) The 5 and 5½ per cent. War Bonds of our Surplus Investment account may be sold for purchasing the Debentures Stock and they may be replaced by the 3, 3½ and 4 per cent pr/notes released from the Sinking Fund.

(4) If we can buy up the whole Stock, ~~th~~ the total gain is £69$\frac{3}{4}$,192. The extinguishment of the debt will release the amount now paid as interest on the Loan and this will add ~~xkmmk~~ nearly 3 lakhs to our annual revenues. The purchase now of the Stock will avoid all risks and uncertainties incidental to the sale of large quantities of rupee securities, and remittance of their sale proceeds to England for redemption of the Loan in 1936.

(5) Action on the lines suggested in paras. 6, 7, & 8 may be taken to buy up as much as possible of the Stock within the period when the favourable conditions mentioned under (1) continue.

M N Venkatachar
27-10-39

(15)

Statement of Southern Mahratta Railway Debenture Stock purchased by Government through Messrs. Coutts & Co.

Date of purchase.	Amount of Stock purchased.	Rate per cent.	Net value in Sterling.
1917	£.		£ s. d.
May	10,000	74	7,474 10 6
"	50,000	74¼	37,497 10 0
"	40,000	74⅜	30,048 12 6
June	3,380	74	2,526 17 6
"	32,000	74⅝	24,150 18 6
September	33,000	76¾	25,582 10 3
"	15,000	77	11,666 4 6
December	1,000	75¼	760 10 0
"	1,000	75¼	760 10 0
"	1,000	75¼	760 10 0
1918			
February	1,000	75	757 14 6
March	2,500	75	1,894 4 0
June	12,500	73¾	9,311 14 3
July	1,000	73¾	745 3 3
August	1,000	73¾	745 3 3
November	500	77	389 2 0
1919.			
June	3,000	75½	2,288 3 0
"	500	75½	381 11 3
"	1,000	75	~~756 14 6~~ 757-14-6
5th August	1,000	72½	732 12 0
1st "	3,000	72½	2,197 4 0
9th Septr.	500	73	369 0 0
1st October	8,000	71¼	5,757 10 6
Total	£.2,21,880		£167,554 10 3

C.

Statement of Securities held by Government on 20th October 1919.

No.	Kind of Securities.	Face value.	Book value.	Present market value.
		R.	R. a. p.	R.
1.	3½% Govternment of India Sterling Loan ..	17,13,000	15,16,475-9-0	7,19,460
2.	3½% Government of India securities	3,23,900	3,15,802-8-0	2,10,535
3.	5% First Indian War Loan	42,58,400	39,49,666-0-0	38,32,560
4.	(a) 5½% War Bonds 1921	15,00,000	15,00,000-0-0	15,00,000
	(b) Do 1925	7,50,000	7,50,000-0-0	7,50,000
	(c) Do 1928	7,47,100	7,47,100-0-0	7,69,513
5.	4% Southern Mahratta Railway Debentures ..	33,28,200	24,89,380-11-4	15,75,340
6.	4% Madras Municipal Loan ..	3,00,000	2,98,196-8-7	2,25,000
7.	4% Calcutta do ..	4,00,000	4,06,679-8-6	3,12,000
8.	Bombay Improvement Sterling Bonds	4,69,500	4,60,351-12-8	2,50,400
9.	Shares in Mysore Tannary	53,560	53,560-0-0	48,204
10.	Bangalore Woollen & Cotton Mills	7,600	4,453-0-0	9,120
11.	Spinning & Manufacturing Co.,Ld.	38,500	44,150-0-0	61,600
	Total	1,38,89,760	125,35,815-10-1	1,02,63,732

Draft cable to Messrs. Coutts & Co.

Purchase of Mysore Railway Southern Mahratta Debenture Stock 1936 slack for some time. Can anything be done to get large quantities quickly? Kindly take all possible steps to buy promptly as much as possible and cable actio taken. Would list of Stock holders help

--FINANCIAL SECRETARY, BANGALORE.--

G. R. S. III-2]

General and Revenue Secretariat. | File No. | of 191

DEWAN'S OFFICE.
Recd. on NOV 10 1919
Reg. No. 3111

Serial No. 16

I submit for information the cable received from Messrs Coutts & Co. in reply to ours of the 27th October 1919 asking them to take active steps to buy up as much as possible of our Railway Loan Debenture stock. The Bankers report that they have bought stock of the face value of £ 4969. They also state that their brokers are in communication with several large holders and that a list of stock-holders is not required. I think we may expect -- large purchases in the circumstances stated by the Bankers and await further reports from them.

Dewan.) 10.11.19

17 (Vide Dewan's order on the Financial Secretary's note 9i

Draft cable to Messrs. Coutts & Co.

Purchase of Mysore Railway Southern Mahratta Debenture Stock 1936 slack for some time. Can anything be done to get large quantities quickly? Kindly take all possible steps to buy promptly as much as possible and cable action taken. Would list of Stock holders help ?

--FINANCIAL SECRETARY, BANGALORE.--

27.10.19

27.10.19

Extract from the Cablegram dated 8th November 1919 from messrs Coutts & Co, London, to the Comptroller,

Your Telegram q 27:
ought at 75:- 4969. madras and
Southern Mahratta Railway Debentures 1936 costing approximately
3720/- Our brokers are communicating with several large holders
List of Shareholders not required."

8:11:1919.

The above extract is forwarded to the Financial Secretary, for information, as the telegram referred to by messrs Coutts and Co, seems to have been issued from the Financial Secretariat.

T Sadasiva Chetty
A/G. Comptroller.
8.11.1919.

Financial Secretary's Note on the Redemption of the Mysore Rail... Sterling Loan.

...

In this note, the Financial Secretary recommends the immediate purchase of the entire block of the Mysore Railway Debentures still outstanding, i.e., of the face value of £ 978,120, on the ground that the combined effects of the rise in exchange and the large discount at which the debentures are now quoted in the English stock markets offer unique advantages for extinguishing the railway loan at once and thus saving for the State the payment of interest to the present holders which should in the ordinary course have to continue until the period fixed for redemption in 1936, i.e., another sixteen years.

The action which has been taken up-to-date in regard to the redemption of the loan may be described as two-fold. In December 1899, the Government set apart Government of India securities of the face value of Rs.25,31,500 carrying interest at 3 per cent. for 10.66 lakhs and 3½ per cent. for the balance, as well as a loan sanctioned by the Government of India to the Jodhpur State of Rs.25,50,000 bearing interest at 4 per cent. It was calculated that the amount thus set apart will aggregate by 1936 at compound interest to Rs.1,80,12,426 or a little over 180 lakhs necessary to extinguish a loan of £ 1,200,000 at 1 sh. 4 d. the rupee.

This

his arrangement was approved by the overnment of India on the understanding that if through a fall in the rate of nterest or in exchange or from any other ause, it becomes necessary at any time o increase the amount of the investment, he Mysore Government will at once take he requisite steps".. The securities re deposited with the Controller of urrency who is authorised to re-invest he interest proceeds of the loan, as hey fall due to the credit of the Sinking Fund. The amount now at the credit f the Fund consists of Government of ndia securities of the face value - 09.94 lakhs purchased for Rs.1,02,82,846. n immense proportion of the securities, .e., 95.77 lakhs consists of 3½ per ent. rupee paper, while about 3.50 lakhs arry interest at 4 per cent. and 10.66 akhs only 3 per cent. In consequence f heavy borrowing by the Government of ndia during the War, the securities ave depreciated largely - 3½ per cent. aper being quoted at 65 - and the market alue of the securities at present is stimated at Rs.71,38,134 involving a oss in capital value of Rs.31,44,712. r. Datta calculated in February 1917 hen 3½ rupee paper was quoted at 70, hat, in spite of this loss, the deficiency to be made good by the State at the time of redemption will not amount to more than 8.75 lakhs as the loss in capital value will be made up to a substantial extent by the higher interest at which future investments could be ma

It is calculated that, owing to a further depreciation of 3½ per cent. rupee paper which has now taken place, the loss to be made good by the State if the present conditions continue till the maturity of the loan, will be about 16 lakhs, provided, of course, a sum of 180 lakhs of rupees is required to extinguish the sterling loan at the then prevailing rate of exchange.

The second method by which the redemption of the loan at the time of maturity has been safeguarded is by investing funds from time to time in the purchase of the debenture stock itself. This procedure was first suggested by the Secretary of State and strongly recommended by Mr.Datta who considered that an investment in this stock at a quotation of 77 per cent. was equivalent to the State to a return at 6 per cent. He said: "no investment could therefore be more profitable to the State and as the purchase of these debentures will mean their redemption at their present value without any chance of any future loss, there cannot be any doubt that it is advisable for the State to buy up as much of these debentures as can be obtained". In consequence of this recommendation, stock to the face value £ 221,880 or 11.5 per cent. of the entire issue has already been purchased.

The

The Financial Secretary now recommends that the balance of 88.5 per cent. of the stock of the face value of - £ 978,120 should be purchased immediately and that energetic steps should be taken in that direction as the purchases by Messrs.Coutts & Co., on our behalf since July 1918 have become very slack having amounted to only £ 19,500. With the rupee at 2 shillings, the par value of the stock is Rs.97,81,200 and as it is now quoted at 71 per cent., the amoun actually required to purchase the entire balance of the stock is Rs.69,44,650. It will be observed that the loss in capital value sustained by us on account of the depreciation of the securities in which the Sinking Fund has been invested will be largely made up by the large discount at which the stock is now quoted if we should be able to purchase the stock now. The stock is redeemable by us after 1936 at par and in sterling. If we should wait till the maturity of the loan for repayment, we are certain to lose the advantage of the large discount of 29 per cent. which we can now obtain and we do not know what the rate of exchange in 1936 will be. We have certainly no reason to assume that it will be more favourable than what it is at present, although it is conceivable that it may be worse. Again, as almost the entire portion of the Sinking Fund is invested in 3 and 3½ per cent. securities we shall have to face any furthe

los

loss that may arise consequent on their depreciation in capital value necessitating the payment by Government of any amount that the realisation of the Sinking Fund may prove to fall short of that actually required to redeem the debentures.

All these dangers will be completely avoided by an immediate purchase of the balance of the stock still in private holding. Apart from this, there is the further advantage of a net gain in interest of £ 39,125 or Rs.3,91,250 which is being annually paid by us out of the earnings of our Railways. It is clear that, if we should by some means utilise the Sinking Fund which we have set apart to redeem the railway loan on its maturity in 1936 in order to re-pay the whole of it at once, we shall be able to save for Government the interest amounting to Rs.3,91,250 which in the ordinary course have to be paid to the holders for another sixteen years. The Sinking Fund now earns an annual interest of Rs.3,81,209 but we can touch no part of its proceeds which have all to be re-invested in order that the aggregate total at its credit may amount to 180 lakhs or whatever the rupee value of the debentures may be found, at the time of maturity to be. As 11.5 per cent. of the Sinking Fund could be rightly claimed by us in view of our having already purchased a corresponding proportion of the debenture stock, the Financial Secretary calculates the net annual gain by an immediate redemption of the loan to amount to Rs.2,79,610.

The advantages of taking vigorous steps to purchase the balance of the stock ill in private holding are so great iat the Financial Secretary suggests iat we might sell our 5 and 5½ per cents ir bonds of the face value 72.55 lakhs order to raise funds required for the irpose. He suggests the 3 and 3½ per ents. securities now forming the Sinking ind, which will be released after the ebt is extinguished, may be retained as ecurity for our current liabilities. would, however, try if we cannot utilis ie rupee securities of the Sinking Fund or this purpose. The chief reason why ie Financial Secretary suggests the ale of war bonds is due to the diffi- ilty of selling 3½ per cent. rupee paper ie Government of India have over 82 ... ores of rupees belonging to the Paper rrency Reserve invested in British easury Bills and it is probable that properly approached they will be will- g to transfer about 66½ lakhs worth of easury bills in London in return for e transfer of the rupee securities in r Sinking Fund at market rates here. e transfer of funds at India to them ll be as great a convenience as their ansfer to us in London under the pre- nt circumstances. It is probable that arrangement could be arrived at with e Government of India to transfer in ndon to our credit as much of the Bri- sh Treasury Bills as may be required buy the debenture stock in exchange

for a corresponding value of rupee paper in the Sinking Fund. This proposal may therefore be tried at first. In case it is not practicable, I should not hesitate to sell war bonds of the requisite value to redeem the debentures. There is no doubt that to put through a stock exchange transaction of three-fourth million pounds requires very delicate handling as jobbers on the London Stock Exchange are quick enough to scent a big deal and a good buyer, and are therefore likely to raise the price of debentures with every offer of purchase. It is therefore necessary that the whole transaction is managed very quietly and it is probable that a deputation of a responsible officer may be necessary.

The Financial Secretary will favour the undersigned with his opinion very early.

12-11-99

If it is possible to persuade the Gover ment of India to give us in London British Treasury Bills out of their Paper Currency Reserve there --- against an equivalent transfer to them here of our Sinking Fund Rupee securities at the current rates of exchange and of prices of pro-notes, the sale of securities and remittance of proceeds of sale a r largely simplified and the arrangement proposed by the Dewan is the best for providing funds in Londor for purchasing the Debenture stock. We want funds in London only as purchases of the stock are made and we may, therefore, request the Government of -- India to allow us to exchange our Rupee Securities for British Treasury Bills in instalments as we re- quire funds in London. It will, however, be ne- cessary to explain the whole situation to the Gover ment of India and enlist their help in discharging our debt when the present favourable conditions con tinue.

It will take time for an officer to go from India and arrange for the purchase of debentur in London. Prompt action is necessary and it may therefore, be considered whether the work may not be entrusted to a person in London who may be expec ed to work entirely in our interests.

Mull
12.11.19

Please look up a correspondence
relative to the Residency. We may have
entrusted the work to Messrs. Barings in the
City in London at present & I should like
to know exactly what we pay them.

17.11.19

(21)

I submit a draft as directed. I have tried to make it clear and self-contained.

2. The Secretary of State offered in 1914 to arrange for the purchase of the Debenture stock and I have, therefore, proposed to request him to do so now. Messrs Coutts & Co. may also go on purchasing the stock and it will be an advantage if arrangements for purchases are made through two agencies instead of one.

3. I have briefly alluded to the circumstances under which this loan had to be contracted with a view to enlist the sympathy of the Government of India and of the Secretary of State in our efforts to avail ourselves of the advantages offered by the present favourable conditions of the Security and Exchange markets.

4. If it is not possible to get the whole stock of our Railway Loan, we should prefer some other sterling security which offers all the advantages of our own stock. It seems to me that another Debenture issue of the late Southern Mahratta Railway Company bearing the same rate of interest and as I believe, not redeemable before 1938, is about the best substitute for our own stock. The stock that I refer to must also have been issued on the guarantee of the Secretary of State and there is likely to be no objection on his part to our buying it for the balance for which we cannot secure our own stock. This stock is also quoted at the same price as our own and if we can buy it, there is nothing more to be done for the redemption of the part of the loan covered by the Sinking Fund held in this form. Our loan is not necessarily redeemable

in 1936; the condition of its issue is that it is not redeemable before 1st March 1936 and that it can be redeemed thereafter at our option after giving one year's notice in the London Gazette. If we hold the other Debenture stock of the Company, we can discharge our loan when the Company's loan itself is discharged. I have accordingly proposed that if the Secretary of State approves, this stock might be purchased for the balance for which our own stock is not available.

5. A cablegram has been received today from Messrs Coutts & Co. stating that stock of the face value of £ 10,000 more has been bought.

6. I put up also a draft D.O. letter to Mr. Banerji.

19-11-19

Dewan

GOVERNMENT OF INDIA,
RAILWAY BRANCH.

Office of the Government Examiner
of Accounts, M. & S. M. Ry.,
RAYAPURAM,

Madras, 15th Nov 1919

Dear Sir

Your telegram of
date just received There
is no separate prospectus
copy of the
issued in connection with
the debenture stock available
in this Company's office.

The Secretary of State
has authorised the issue of

of debenture Stock of £2 inm
at the price of 99 per cent
bearing interest at the
rate of 4 per cent. per
annum payable half
yearly on the 1st April &
1st Oct in each year The
Stock is redeemable by the
Company at par on or a
any time after the 1st day
of October 1938 on 12 Calend

mentioned premises subject to
lowering being given at
the option of the Company
and with the previous
Consent of the Secretary of
State.

No sinking fund is
maintained by the Company

Yours obediently
B. Belgaumdaskar

mentioned premises without in writing being given at the option of the Company and with the previous Consent of the Secretary of State.

No sinking fund is maintained by the Company

Yours obediently

B Belgaumdas

G. R. S. III-2]

General and Revenue Secretariat.

S.f. File No. 55 of 191 .

Serial No.	
	To The A-Resident
	Dis No. 454. Cr. d. 22. 11. 19.
	Requesting the assistance of the Govt of India and of the Secy of State on the two Conditions noted below
	The Govt of India provide ~~to be~~ held to the Credit of Sinking fund to be sold and the proceeds remitted to London &
0	the debenture stock to be purchased without its price going up.

Submitted to His Highness.

***

The accompanying papers relate to the subject of the redemption of the Mysore Railway Sterling Loan of £1,200,000. The loan is redeemable at par in March 1936 or afterwards by giving one year's previous notice in the "London Gazette".

2. The action taken hitherto in regard to the redemption of the loan has been of two-fold character:-

(1) In 1899, a Sinking Fund was formed for the redemption of the loan under instruction from the Secretary of State as follows:

> "Her Majesty's Secretary of State for India has been pleased to agree to the proposal that the Mysore Government shall put by at once such a sum, in Indian Government Promissory Notes, as will amount, if allowed to accumulate at compound interest, to a sum of 180 lakhs of rupees on the 1st March 1936. This proposal is agreed to on the further understanding that if, through a fall in the rate of interest or in exchange, or from any other cause, it becomes necessary at any time to increase the amount of the investment, the Mysore Government will at once take the requisite steps."

In accordance with this agreement, the present worth calculated to amount to Rs.180 lakhs on 1st March 1936 was invested in the form of Government of India Promissory Notes lodged with the Comptroller-General. The Securities of the Fund are now in the custody of the Controller of Currency, Calcutta, who is authorised to re-invest the interest proceeds thereof as they fall due to the credit of the Sinking Fund. The amount now at the credit of the Fund consists of Government of India securities (mostly of 3½ per cent. paper) of the face value of Rs.109.94 lakhs purchased for Rs.1,02,82,846 and the present market value of these is estimated at - Rs.71,38,134 involving a loss in capital value of Rs.31,44,712

(2) The second method by which the redemption of the loan has been safeguarded is by investing funds from time to

time in the purchase of the debenture stock itself. This procedure was first suggested by the Secretary of State and strongly recommended by Mr.Datta as being the most profitable investment for the State. Accordingly, Government approved of the proposal and authorised the purchase of as much stock as could be had at a price not higher than 77 %. At the beginning of the current month, stock of the face value of £22½,880 had been purchased by Government for Rs.24,89,380, the investment yielding a return of 5 1/3 per cent.

3. The Financial Secretary recommended that owing to the discount of 71 per cent at which the stock is selling in the London market and the present high rate of exchange, it would be extremely advantageous to the State if vigorous measures were adopted to purchase the entire stock still outstanding, i.e., of the face value of £ 978,120. He calculated that as a result of the combined advantages of the two factors, the debt will be reduced to 47 1/3 % and that a sum of 69½ lakhs would be sufficient to purchase the entire debt. The immediate effect of the extinction of the debt will be the release of interest charges of £38,468 or Rs.3,84,860 a year payable at 4 % on the stock outstanding. The Sinking Fund is being accumulated to pay off the debt when it falls due 16 years hence but the immediate purchase of the stock will have the effect of extinguishing the debt 16 years before it is due and Government will save the interest charges of nearly 4 lakhs of rupees which are being annually paid out of our railway revenues. An increase of revenue by nearly 4 lakhs is a welcome addition to our resources in the present state of our finances. The shrinkage in revenue is largely due to the rise in exchange and any measure by which this rise can be utilised to make for our advantage should obviously be taken advantage of.

Apart from the immediate increase in revenue, the extinction of the debt will relieve us of anxiety of the Sinking Fund not being sufficient, owing to exchange conditions then existing, to re-pay the loan when it falls due in 1936. Owing to the large depreciation in Government paper, the market value of the securities in which the Sinking Fund is invested has declined by about 31 lakhs as compared with their purchase price, and it is necessary to avoid any risk of the State having to make good any insufficiency in the Sinking Fund at the time of the redemption of the loan.

As the advantages to be derived by taking vigorous measures to purchase the balance of the stock were very great, I approved of a cable being sent on 27th October 1919 to Messrs. Coutts & Co., as noted in the margin. Intimation has been received that stock of the face value of about £16,000 has since been purchase bringing up the total purchases up-to-date to £237,849, leaving a balance of £962,151 still in private holding. At the current rate of exchange, a sum of about 68 1/3 lakhs is expected to be sufficient to buy up the whole of this.

"Purchase of Mysore Railway Southern Mahratta Debenture Stock 1936 slack for some time. Can anything be done to get large quantities quickly? Kindly take all possible steps to buy promptly as much as possible and cable action taken. Would list of stock-holders help?"

The main questions for consideration are how best to arrange for the purchase of the entire balance of stock immediately, if possible, without allowing the price to go up, and how to find the amount required for financing the purchase.

In his note dated 27th October, the Financial Secretary suggested that the amount required might be found by the sale of 5 & 5½ % war bonds of the face value of Rs.72½ lakhs, rather than by the sale of the securities of the Sinking Fund, on account of the great difficulty likely to be experienced in selling in one lump such a large quantity of 3½ % paper which is already heavily depreciated, and the greater ease with which the war bonds could be disposed at less loss. He also

(B.S.)

also suggested that the Pronotes of the Sinking Fund which would be released after the Loan was extinguished might be retained as security for our current liabilities. I wanted, however, to try if we could not utilise the securities of the Sinking Fund now alone to finance the purchase of the stock. In view of the fact that the Government of India have over 82 crores of rupees belonging to the Paper Currency Reserve invested in British Treasury Bills, I thought it probable that, ~~if expres~~ especially as Financial authorities are advising them to encourage Indians to purchase sterling securities in order to stabilise exchange, if properly approached they would be willing to take over at current market rates the Government of India Pronotes of the Sinking Fund on behalf of their Paper Currency Reserve in India (instead of offering them for sale to the public and further depreciating their market value) and pay us the price therefor in British Treasury Bills at their present price and at the current rate of exchange; and that this proposal might therefore be tried first. Under my instructions, the Financial Secretary accordingly put up a comprehensive draft of a demi-official letter to the Hon'ble the Resident, which I have issued in anticipation of gracious approval in view of the extreme urgency of the case and the obvious benefits accruing from the proposal, if accepted. In gard to the arrangements for the purchase of as much of the benture stock as possible without allowing the price to go , it is proposed to leave them entirely in the hands of the cretary of State, with a request that, if it be found im-acticable to get the whole of it, some other sterling secu-ty now selling at a discount and offering the advantage of demption at or above par, about the year 1936, might be pur-ased.

In case the proposal be not found acceptable to the vernment of India, I think we should not hesitate even to ll war bonds of the requisite value to redeem the debentures

(3 C 1)

The work of putting through a stock exchange a transaction of such magnitude requires very delicate handling as jobbers on the London Stock Exchange are quick enough to scent a big deal and a good buyer and are therefore likely to raise the price of debentures with every offer of purchase, and it is therefore very necessary that the whole transaction should be managed very quietly. The presence of a responsible officer in London to work entirely in our interests will be of great use and Mr. Banerji who is not expected to leave England until the end of December, may perhaps be entrusted with the work. I have sent him a copy of the letter issued to the Residency to keep him informed as to how matters stand, so that he may take necessary further action, if required, on receipt of a reply from the Government of India.

25th Nov 1919

D 2001

Record of Cases submitted for the Orders of His Highness the Maharaja

Subject.

Proposals for redeeming the Mysor
Railway Sterling Loan.

no. 631

Order.

~~KRW~~
12/12/19

K. Seshadri Iyer
13.12.19

(41) D 214.

97-55-19-1

D.O.No.1447/Books. Enclosure one.

Office of the Comptroller in Mysore,
Bangalore, dated the 29th December 1919.

Dear Sir,

I enclose for your information a copy of letter No.ARB.17 dated 4th December 1919 from Messrs. Coutts and Co., London, regarding the purchase of Southern Mahratta Railway Debenture Stock

The telegram of the 27th October 1919 referred to in the Bank's letter seems to have been issued from the Financial Secr tariat.

Yours sincerely,

T Satyanarayana

MSR/29-12.

To

M. N. Krishna Rao, Esq., B.A.,
Offg: Financial Secretary to the
Government of Mysore, Bangalore.

(2)

Copy of letter No.ARB.17 dated 4th December 1919, from Messrs. Coutts and Co., London, to the Comptroller to the Government of Mysore, Bangalore.

==========

Madras and Southern Mahratta Rly. 4% Deb: Stock, 1936.

With reference to your telegram of the 27th October last, our Brokers now report that they have obtained a list of all - holders of over £1000: of the above stock and have acquired both of the last two purchases by that means. They now find that the price of the 1936 stock (75) is so much above that of the 1938 stock (69-70), that holders of the former are refusing to sell, arguing that there must be some good reason for such a wide - difference in price -possibly that the stock will be paid off in 1936- in which case there is no reason to sell.

It is possible that we might get some stock by advertising that we are prepared to buy at say 76, but it might only strengthen the above idea.

Perhaps you will kindly cable your instructions.

==========

Superintendent, ~~Records~~ Book Section,
Comptroller's Office.

G. R S. III-2]

General and Revenue Secretariat.

Redemption of M. S. M. Ry. Sterling Loan.

File No. of 191 .

Serial No.

Messrs. Coutts & Co's letter dated 4th December 1919 ~~in~~ to the Comptroller is submitted for information. It is in reply to our -- cablegram dated 27th October 1919, asking them to arrange for prompt purchase of the debenture stock.

2. In the circumstances stated in the Bankers' letter, it is unlikely that any large quantities of stock will be offered for purchase at reasonable prices and the prospects of our buying up the bulk of it, if not the whole, are remote. We should not pay for it a higher rate than its proper market price, if we can invest the Sinking Fund in some other sterling security offering all the advantages of the debentur stock itself.

3. There is one point which it is well to make clear to the holders of the stock. The stock is not necessarily redeemable in 1936. - Under the terms of issue, we have reserved pow to discharge the loan at our option in 1936 or at any time after that year. Whether we shoul repay the loan in 1936 or afterwards depends - entirely on the rate of interest at the time. It ~~is~~ would be obviously to our disadvantage to dischar the loan if the rate of interest Then is more than per cent. We need not and should not redeem t debt until the rate of interest falls to 4 per cent. or less. In these circumstances, I thi it is necessary to inform the holders of stoc

Serial No.

through the Brokers of Messrs. Coutts & Co. that the stock will not be paid off in 1936 and that we are not also prepared to pay for it now anything more than its market price. This may induc the holders to sell at reasonable rates.

4, As I have stated in para 4 of my note date 19th November 1919, the Southern Mahratta Debenture Stock not redeemable before 1938 offers all the advantages of our own stock. I would therefore propose the purchase of the former stock. I will be seen from the Bankers' letter that the -- present price of this stock is 69-70, while our stock is quoted at 76 and it cannot be had even a this rate. I place on the file the letter dated 19th Nov. 1919 of Mr. B.C.Garudachar, Assistant Comptroller, Railways, which gives particulars of the nature and conditions of issue of the Company's stock of 1938, which I propose may be purchased.

5. The first step to be taken is to sell our rupee securities of the Sinking Fund and remit -- the proceeds to London at the present favourable rate of exchange and on this subject, we have addressed the Government of India. The value of our rupee holding is shrinking as the price of 3½ % paper has lagged to 60 per cent, and it may decline still more. But the exchange rate has further moved in our favour and we shall now get -- about 2s.5d. per rupee against 2s. assumed in the calculations made in my note If we can dispose of the rupee paper and remit the proceeds to Lon-

G. R. S. III-2.

General and Revenue Secretariat.

File No. 53 of 1919.

Serial No.

DEWAN'S OFFICE.
Recd. on JAN 2 1920
Reg. No. 4429

London we can invest them in our own stock or in the Company's stock of 1938 or in some other fluid security like Treasury Bills, the capital value of which is not liable to much fluctuation, and which yields the same or a better return.

Dewan

Agree with above proposals.
31.12.19
3.1.20. Wells

Messrs Coutts & Co. have asked for instructions by cable. The Comptroller will, if approved, be requested to send the following cable to the Bankers at once:-

"Your letter 4th December. Stock 1936 not repayable and will not be repaid in that year. Nor is Mysore Government willing to buy it at more than its proper market price. Please purchase ~~instead~~ Madras and Southern Mahratta Railway 4 percent. Stock 1938 at its ordinary market price if it is also guaranteed by India Secretary of State and cable quantities bought from time to time. -- Comptroller."

DEWAN'S OFFICE.
Recd. on JAN 6 1920
Reg. No. 4530

Dewan

6/1/20

Copy sent
Wells
7-1-20

PJ

G. R. S. III-2]

General and Revenue
Secretariat

File No. 55 : 24 N of 1919.

Forwarded to the Comptr for favour of looking further action and returning the file.

Mgr Ventricatter
7.1.20

Cablegram has been sent to day and the file is returned

Satyanarayana
8-1-20.

8/1/20

D 261

G. R. S. III-2]

General and Revenue Secretariat. | File No. of 191

Serial No.

DEWAN'S OFFICE.
Recd. on FEB 12 1920
Reg. No. 5516

It is now about 2½ months since we addressed the Government of India on the subject of the remittance to London of our Railway Sinking Fund and we have not yet heard in reply from them. The exchange rate has since risen very high and the quotation now is about ~~2/9d~~ 2/11d. The present is, therefore, a very favourable opportunity for remitting funds to London. Reverse Councils are being sold by the Government of India at about ~~2/9d~~ 2/11d. and it is well to settle the question of transferring the Sinking Fund from the rupee into the sterling investment when the sterling continues to be as depreciated as it now is. Whether the remitted funds can immediately be invested in our own stock or not is immaterial as we can easily find a suitable short term investment for the funds until it is possible to transfer the investment to the stock of our loan. The proposal consists of two parts: (1) remittance of the Sinking Fund to London for taking advantage of the prevailing high rate of exchange, and (2) investment of the fund in the Debenture stock for taking advantage of the large discount at which it is quoted or in some other suitable sterling security. It is necessary to take prompt action for giving effect to the first part of the proposal but no further steps can be taken

Serial No.

until we hear from the Government of India. I accordingly put up a demi-official reminder to the Resident.

2. The exchange rate may rise further still but as stated in my first note on the subject the advantage that the prevailing rate offers is sufficient for us and we need not wait for any further speculative advantage of a still better rate. The recommendation of the Currency Committee and its acceptance by the Secretary of State shew that the intention is to stabilize the rupee at 2 sh. ~~per pound~~ rupee. As, however, the pound sterling is heavily depreciated, the stabilization now secured is with reference to gold. When sterling will regain its normal gold value, it is impossible to say. Attempts are, however, being made to re-establish the normal relation between gold and sterling. When the convertibility of the pound sterling into gold is fully established, the rupee-sterling exchange will fall to 2sh. In these circumstances, it is to our advantage to arrange for converting our rupee Sinking -- Fund into a sterling investment before the sterling rate comes to the 2 sh. level.

11.2.20

D E W A N.) Jamnes. Dep-offr

13.2.20

WD A 1789—GPB—60,000—20-3-18—S.

G. R. S. III-2]

General and Revenue Secretariat.

File No. 58 of 1919

Serial No.

Draft issued and the file returned to the H. Secrt.

BS
13/2/20.

Mudr
13.2.20

18
18/2

Do the F.A.R. No 558-D 13.2.20

With reference to D.O. letter No 454-D. 22.11.19 requesting ~~early~~ arrangements for an early settlement of the matter in re the Subject of remittance to London of the Durbar & Guinea Fund:—

U.V.7

G. R. S. III-2]

General and Revenue Secretariat.

Ex File No. 55 of 1919.

Serial No.

DEWAN'S OFFICE.
Recd. on FEB 19 1920
Reg. No. 5721

Subs. to Dewan Jri. on Jermatos.
And anticipated the S.M.R stock of 1938 is in every respect the same as ours of 1936 and we can purchase it with all the advantages of our stock.

Jml
17-2-20

I am valem
Unsubscribed - I have - 18/1912
the Prince was not dead when
[illegible]

2786
2082
(5)

Serial No.

Flag S.

The present condition of the Exchange market and the direction in which it is likely to move in the future compel me to submit another note on the need for urgency in taking steps to convert the Railway Sinking Fund from the rupee to the sterling basis. It is now four months since our first representation[x] on the subject was made to the Government of India and we have not yet heard from them in reply. The factors favourable to the proposal for converting the rupee fund into a sterling fund moved largely in favour after our first representation was made and this point was specially brought to the notice of the Government of India again in our letter * dated 13th February 1920. Even this letter has fetched no reply so far. In the meantime the exchange rate is moving against us. The rate for Reverse Councils which was some time back as high as 2 sh. 11 d. has now come down to about 2/8 d. The rate quoted by the Exchange Banks has also been on the decline and it is now about 2/4 d. The rate for Reverse Bills has been the subject of considerable discussion and the Finance Member told the Legislative Council on the 10th instant that proposals had been placed before the Secretary of State to bring the two rates more closely together. Those who have to make remittances from India to London should take advantage of the high rates allowed for Reverse Coun-

Serial No.

Council and if we can make a successful tender for these Bills, we shall get the benefit of at least the prevailing high rate, which will enable us to wipe out a large part of the debt. For making this remittance we want money here in India and we can get it only by disposing of the rupee securities how held to the credit of the Sinking Fund. As regards the sale of these securities we have addressed the Government of India and we have asked them to purchase the securities for their Paper Currency Reserve and give us the equivalent amount in British Treasury Bills held in London as part of that Reserve. It is doubtful if the Government of India will agree to this proposal. The continued sale of Reverse Councils and the large demand for them has necessitated the sale of sterling securities held on behalf of the Paper Currency Reserve in London and as the direction of Government remittances is now largely from London to India I do not think ~~xxxx~~ the Government of India are likely to comply with our request for giving us British Treasury Bills in exchange for rupee securities made over to them in India. There is however one feature of the sale of Reverse Councils of which we may try to take advantage if the Government of India are disposed to help us. The necessity for the sale of sterling securities of the Paper Currency Reserve has compelled the Govt. of India to increase the rupee investment on behalf of that Reserve. We may request them to take the rupee securities of our Sinking Fund for the investment of the Paper Currency Reserve transferred from

London

Serial No.

Flag X.1

London to India as a result of the large sale of Reverse Councils. I request reference in this connection to the Hon'ble Mr. Hailey's speech on the 17th instant while introducing in the Legislative Council the Bill to amend the Indian Paper Currency Act of 1910. If the Government of India require rupee -- securities for investing their Paper Currency Reserve they may ~~not~~ take our securities at their market valu and if they do, we shall be able to dispose of the whole of our rupee Sinking Fund and we may utilise the proceeds for making the required remittance to London and thus take advantage of at least the prevailing rate of exchange.

The problem is complicated by the facts that we already hold in London as ~~xxixxxxxxx~~ large an amount as £ 3,43,300 and that we have made another representation to the Government of India to bring over this balance here, if possible without entailing loss on exchange. To this representation also we have received no answer so far. If the Government of India refuse to permit us to import our sterling -- balance from London to India, we can at least set aside such balance for conversion of the rupee Sinking Fund into a sterling fund and utilise for current purposes the proceeds of sale of an equivalent ---- quantity of the rupee securities of the Sinking Fund.

The delay on the part of the Government of India in dealing with our representations is costing us dearly. If we can remit the Sinking Fund proceeds at the present rate (say 2sh. 8d.) for Reverse Coun-

Serial No.

Councils.—Our debt will be reduced by one half as every rupee will enable us to redeem a debt of 2/8 d instead of 1/4d. Deducting the Debentures already bought by us the sterling debt is now £ 9,44,550. For discharging this debt it is enough to remit ------ Rs.70,84,125 and we have almost this amount already in the Sinking Fund as the realisable value of this Fund is Rs.67 lakhs.

I would therefore propose that another reminder be sent to the Government of India explaining the position and the need for immediate action. I accordingly put up a draft to the Resident.

As the case relates to the Sinking Fund arrangements for the redemption of the Sterling Railway Loan, it is submitted to the Dewan through the First Member.

Draft 23.3.20

The draft is slightly touched up & may issue. The question should be decided one way or the other without any further delay for knowing the decision we can take further action regarding our Indian funds. — We have made 3 requests in 3 diff Communications

All these may be put together for facility of reference

May be submitted to the Dewan

24.3.20

Dewan

24.3.20

26.3.20

DEWAN'S OFFICE.
Recd. on MAR 25 1920
Reg. No. 6593

Note be Separately Sub?

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | 97 File No. 65 of 1919.

Serial No. 18

To the H.R.

No. 650 d. 27.8.20.

requests that as already represented by the Durbar the rupee securities of their Ry. Sinking Fund held by the Controller of Currency be taken over on behalf of the paper currency reserve & that the proceeds may be permitted to be remitted to London at the rate at which ~~Reserve~~ Reverse Council bills are issued & that as the matter is urgent it may be brought to the notice of the Govt. of India and their orders communicated by telegram.

G. R. S. III-2)

General and Revenue Secretariat.

Q7 File No. 55 of 1919.

Serial No. 33

From the Residency D. O. No. 6260 d/ 22.7.20 states the Govt of India are unable to take over the Govt Securities of 3, 3½ & 4 % loans in the Sinking Fund for their paper currency Reserve, and proposes another way of investment of the same.

Subd forwd

V.N.

14/8

14/8

A copy is sent to Accountant reporting to it that the Accountant the Govt of India communicated by the Residency

A note on the points raised in the Residency Letter is submitted

1.8.20

3.8

Please return the file after dispatch of letter

3.8

G. R. S. III-2.

General and Revenue Secretariat.

File No. 85 of 19 .

Serial No.

I put up a draft reply to the Residency letter of 22.7.20 - As the exchange rate showed a perceptible decline we arranged recently for a remittance of £100 000. The rate still shows a downward tendency and if it declines further we may get the whole amount now in London (about £1000000) transferred to India and the question whether it is preferable to leave the money in London for purchase of debentures on a large scale or to have it remitted to India need not be considered for the present. Small purchases may continue to be made by Messrs Cooke & Co on account from our Current Sterling Reserves. The proposal in the Residency letter re Sale of ~~Sterling~~ Rupee Securities may be accepted but we should not agree to immediate remittance of Sale proceeds irrespective of Conditions of the Exchange Market. We may remit to London when the rate rises to 2 sh or more if possible. In the meantime the proceeds may

G. R. S. III-2]

General and Revenue Secretariat.

File No. 85 of 1929.

Serial No.

remain invested in short term maturities like Presidency Bank fixed deposits or Indian Treasury bills

Dewan Chd
Just Member

Dmll
12-10-29

The delay in replying this is the fault of the non-compliance with our request in the second has led to some loss to us, but it is doubtful if it will serve any useful purpose further into a controversy about this as I am inclined to think that as suggested by the Finl. Secy. the proposal for the realisation Rupee securities may be accepted but the transfer of funds to England delayed till the Exchange rate is over 2s. The Exchange rate is not favourable to remittances from India on a large scale such as of Sterling stock may however continue the mark by Messrs Cox to 1/6. as at present from our current Sterling revenues.

Secl.
17.10.29

I understand this was done by the late Secretary & Finance Department. This file may be returned to them & see if their proposal accepted or not.

20.10.29 P.J.O.

G. R. S. 111-2.

General and Revenue Secretariat. File No. of 19

Serial No.

Subt. to First member

Sd/-
21-10-20

1824/20

The drafts all right
It tells the whole
of Sinha by the G. of India
F. Dept. Thing added.
Sealed & sd.
24.10

Sd/-

Sent to Dewan

Sd/-
29/10/20

1604/26/20

(illegible) K/25/20

DEWAN'S OFFICE.
Rd. on OCT 29 1920
Reg. No. 3451

Submitted to His Highness.

***

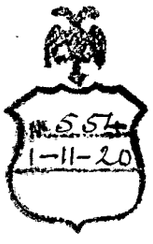
Our sterling loan of £1,200,000 is repayable in 1936 at our option. The Sinking Fund for the redemption of this loan is now held in rupee securities in India. These Securities consist of the 3, 3½ and 4 per cent. paper of the Government of India which are not redeemable on any particular date. Some time back the rate of exchange was extremely favourable for remittance of funds from India to England as it had gone beyond 2s. and risen at one time to 2s.11d. even. We wanted to take advantage of this opportunity to convert the rupee Fund into a Sterling Fund and accordingly requested the Government of India to take over our rupee securities, if possible, for the Paper Currency Reserve, at the market rate and remit the proceeds to London. The Government of India replied to our representatio only in July last when the rate had declined below 2s. The stated that it was not possible to take over our securitie for the Paper Currency Reserve. (Vide Residency Letter dated the 22nd July 1920.) They have, however agreed to ou suggestion that it is desirable to dispose of the rupee securities for conversion into sterling when the opportunity to do so is favourable. This was one of the points discussed by Mr. Banerji with the authorities of the Government of India during his recent visit to Simla. A draft for taking further action in accordance with the advice given by the Finance Department of that Government is herewith submitted. The capital value of these securities which are practically irredeemable and which carry a low rate of interest is going down and it is well to dispose

sale proceeds, however, we may wait until the rate of exchange rises to 2s. according to the desire of the Government of India to stabilise the exchange value of the rupee at that rate. In the meantime, the sale proceeds may be held in short-term maturities like Presidency Banks' Fixed deposits or Indian Treasury Bills whichever yields the best return. The draft has been approved by the First Member and myself and I solicit His Highness' gracious permission to take action as proposed in it.

1st Nov. 1920

Record of Cases submitted for the Orders of His Highness the Maharaja

Subject.



Draft reply to the Residency on the subject of our request to convert the rupee securities held for redeeming the Railway Sterling Loan, into sterling securities.

Order.

~~KRM~~
4/11/20

H-L
Ceeyr
5.11.20

Immediate
Secy
6.11.20
18
6.11

G. R. S. 111-2,

General and Revenue Secretariat.

File No. 87 of 1917.

Serial No. 34

To the P.R.

D. Pol 5114 d: 6-11-20

acknowledge receipt of letter no. 6880 d 22/7/20 on the orders of the G.G. on the proposal of the Durbar for converting rupee securities into Sterling securities and state that the Durbar agree to the proposals made in para. 3 of the letter and request that the Sale proceeds need not be remitted to London for purchase of St. Securities but be permitted to be invested in Pr. Banks or Indian Dry Bills for realising the best return till favourable opportunity for remitting it to London occurs and that the Controller of Currency be requested to keep the Durbar's Comptroller advised of the sales made - prices secured & the Sterling investments made from time to time. and that the G.G. desires that remitting money to England for purchasing St. Securities may be taken up when a favourable opportunity occurs.

G. R. S. III-2]

General and Revenue Secretariat. | G/3 File No. of 1918.

Serial No. 35

From the ~~J R~~

D.O NO 10741 D: 16.12.20

~~On repts~~ with refee to Serial 34 states that the Dwebers' proposals conflict with the suggestion of Secy of State requiring only 20 lakhs to be placed every year on the market and suggests that if the Durbar wants to have the whole of their Sinking Fund Securities realised within the next 2 or 3 months they may ~~make~~ indicate ~~that the~~ make a further representation indicating how the suggestion of the Secy of State adversely affects the finances of the Durbar.

Subs with previous papers vide flag. S & F.

Secy)

8/12/20

I submit a draft reply to Major Bowden's D.O. of 6.12.20

Dewan Mrs
First member

9/12/20

15.12.20

15/12/20

DEWAN'S OFFICE
Recd. on DEC 14 1920
Reg. No. 4217

G. R. S. III-2j

General and Revenue Secretariat.

SJ File No. 55 of 1915

Serial No. 36

To the [illegible]

No Pol.-658 d. 17.12.20.

~~State~~ Request under the circumstances explained that the sale of securities may be arranged in such a way as will serve the best interests of the sinking fund, the ~~sale~~ disposals being advised from time to time so that the Bank might offer their suggestions as occasion requires the sale process being invested ~~now~~ in short-term deposits in one of the Presidency Banks - ...

Subd: with reference to Supdt's instructions on the previous page. with a typed copy of the Residency letter to be sent to comptroller if approved.

Submitted 3/21 Forwarded with compliments to the comptr. for information & return.

for financial secy

2566.

G. R. S. III-2,

General and Revenue Secretariat. | G. & File No. 55 of 1919.

Serial No.

We have requested the Controller of Currency to dispose of the 3½% Securities of our Railway Sinking Fund to the best advantage with a view to save the loss involved in the further depreciation in the capital value of such securities . The price of these securities has latterly gone up and it now stands at about Rs.58 per cent., having risen from Rs.50 percent the lowest level it had reached sometime back. The exact causes which have contributed to the rise in the value of these securities are unknown and there are conflicting explanations in the financial articles in newspapers. Some say that the Government of India propose to exempt the interest on these securities from Income-tax or intend to give the holders of these securities some conversion advantages in connection with the next loan to be floated by them. Some say that there is no foundation for either of these expectations. The fact however remains that there is an increase in the value of these securities and I think it is well for us to take advantage of this rise. I therefore put up draft of a D.O. to the Resident requesting him to move the Controller of Currency for arranging for the sale of as much as possible of our 3½% holding, so realising the benefit of the current market rate.

Dewan)

21.1.21

Draft approved by the Dewan has been issued. 22/1

B.S. 2/2

3.2.21

3217

G. R. S. III-2]

General and Revenue Secretariat. | File No. 825 of 1919

Serial No.

I put up a draft reply to Major Plowden's letter of 9th February 1921. There is no objection to hold the Sterling part of the Fund in London or to invest the interest from it in the 5½ % British War Bonds, 1928. As regards general discretion to be left to the Secretary of State, I have added that we desire that the investments should be in short-term securities yielding the best return possible not subject to tax. The 3½% Stock is practically irredeemable and it is desirable to dispose of it when a favour-able opportunity offers for doing so and invest the proceeds in short-term securities. I have mentioned this point also in the draft.

DEWAN'S OFFICE.
Recd. on FEB 11 1921
Reg. No. 5312

D E W A N.)
10-2-21

13.2.21

Letter to F.A.R. issued & the file returned to the Fin: Secrt.: D.O.No 529-D 13-2-21.
20 Jan F.A.R.
15/4/24

Sundry to Comptr.
1875/2

41

To the Comptroller
No 8.5815-D. 22nd Feb 1921
Forwards copy of this above. with Resy letter No 1988 D 9/2/21

et.

WD A 1789—GPB—60,000—20-8-13—S.

3895
3896

G. R. S. III-2]

General and Revenue Secretariat. | GJ File No. 55 of 191 ?..

Serial No.	
42	From the D.R. D. O No. 3300. d 5. 4. 21. with reference Sl. 40 states that the copy of Durbar's letter is forwarded to Depy Dirl Secy. pointing out that the Durbar are content to leave to the Discretion of Secy of State the choice of investments and inviting attention to the other points raised by the Durbar (Mem) also that the Accountant Genl is requested to furnish the Statement showing the position of the Sterling part of the fund on 30. June instead of on 31st march every year as referred to in para 3 of their letter.
43	From the D.R. D O No 3301. d 5.4.21 with reference to letter No 4833 d 22 (1921) states for reasons given that the proper course for the Durbar is to entrust the sale of 33½ l. rupee Securities to the Imp Bank of India. - the Securities continue be held by the Controller of currency - or of the Mysore State. Subs with references ~~If approved Copies will be Sent to the Comptroller for info~~

3256 / 15/4 (Mem) 8/4. TRM 6/4

Flsecy 15/4.21

G. R. S. III-2]

3896

General and Revenue Secretariat.

R.D. File No. 55 of 19 19. 1691

Serial No.

we have recently proposed that the whole sinking fund may be replaced at our disposal and pending consideration of this proposal no further action is necessary on either of the D.O. letters from the F.M.R. Dewan)

mh 19.4.

DEWAN'S OFFICE.
Rec'd. on APR 20 1921
Reg. No. 6568

Lees
22.4.21

mh 22.4.21

G. R. S. III-2]

F. 76 4338

General and Revenue Secretariat. | Part File No. 85 of 1921.

(70)

Serial No.

44 From the D R
D.O no 4308 d 7.5.21.
With reference to S1: 42 forwards the marginally noted copy of Finance Dept letter no 228 F d 20 1/21 corresponding
Letter no F/856 d 8 3/21.
do - no 966 F. d 24 3/21.

Sent to Comptroller for note & return as per orders of Under Secy.

45 From the Compt
no. 28754/PD. d 14 5/21
States that the enclosures to the above have been retained in his file.
~~under~~ Noted as per orders of the Under Secy.

46 From the Secretary to the Resident
D.O. no 5570 d 20.6.21
In continuation of D O no 4308 d 7.5/21. forwards for information copy of letter no F 4397 d 28 6/21 from the India office.
Under Secy's orders:
"To be sent to Comptroller for information
Subd with draft for despatch.
28 6/21
30/21
Issued
8/7/21
To the Comptr
no. H 5: d 4.7.21
forwards for info copy of letter no F 4397 d 28 6/21 from the India Office. d 7.0
From the I A R. D O no 8857 d 27 6/21
States that further copies of Comm^ns received from India Office may be supplied. will be forwarded to the Durbar.

C. 266

D.O. No. 454/E.7. 22.11.19.

Dear Mr. Cobb,

I would request reference to the correspondence ending with Mr. P. B. Warburton's D.O.No.7249 dated 8th October 1914, to Sir M. Visvesvaraya, regarding the investment of the Mysore Railway Sterling Loan Sinking Fund. It was stated therein that the question under discussion would be treated as closed, pending a further communication from the Durbar and that the Secretary of State had been informed accordingly by the Government of India.

2. The conditions of the Exchange and Security markets are now favourable to the Darbar for arranging for conversion of the rupee securities of the Sinking Fund into sterling securities and I am therefore addressing this letter to you.

3. The proposal for such conversion had been placed before the Secretary of State in 1914 and his advice as communicated in letter No.4451 dated 3rd July 1914 from the First Assistant Resident was as follows:--

"In his opinion it seems preferable that future investments should be made partly in India stocks and partly also, whenever a favourable opportunity offers in the 4 percent debentures stock itself (now quoted slightly below par) or in other trustee securities, due regard being had to the relative cheapness of these different investments. If these proposals be accepted and when money becomes available for investment in England, the Secretary of State will give instructions for the pur-

chase

of stocks and their transfer into the names of suitable members of the India office to be held by them in the capacity of trustees pending the redemption of the debenture stock"

The Darbar desired to accept this - advice and act upon it but as the war was declared soon after, they considered it advisable, as intimated in their letter No.Pol. 139 dated 31st August 1914, to wait for some time.

4. The Secretary of State considered that the best investment for the Sinking Fund -- would be the Debenture Stock itself, regard being had of course, to the relative cheapness of the different sterling securities in which investments might be made. The present quotation for this Stock in the London market is about 71 per cent. So far as the price of the Stock is concerned, the present is therefore a very favourable opportunity for buying it. The Stock being redeemable at par, the Darbar will be benefited if they can take advantage of the present condition of the London Security market and purchase their stock at a discount of about 29 per cent.

5. The discount at which the Stock is -- selling is not however the only advantage which the present opportunity offers. The - sterling value of the rupees has largely risen and the conversion now of the rupee securities of the Siking Fund into a sterling investment would enable the Durbar to get the benefit of the present high rate of exchange as well. The future course of exchange is uncertain and if any part of the Ski Sinking

Fund is held in rupee securities there will be the risk of the rate of exchange being against the Darbar when the time comes for selling such securities and remitting the sale proceeds for redemption of the loan in England. If the conversion into sterling is effected under the -- present favourable exchange conditions, the -- Darbar will be saved the anxiety in respect of the future uncertainties of exchange and the risk of making good the deficit that may be caused in the amount of the Sinking Fund by a future fall in the rate of exchange.

6. As you are aware, the Darbar receive a large part of their revenue--Royalty and price of electric power, paid by the Kolar Gold Mining Companies--in sterling in London and during the War it became impossible to get this revenue remitted to India. Accordingly the Darbar arranged through their London Bankers--Messrs. Coutts & Co,--to buy the Railway Loan Debenture and stock of the face value of £.237.849.. has so far been purchased. The balance of the loan is thus (£1,200,000-£237,849)=£962,151 and at the present price of this stock and at the current rate of exchange a sum of about Rs.68$\frac{1}{3}$ lakhs is sufficient for buying up the whole balance of £962,151.

7. The Sinking Fund for discharge of the debt was formed under the orders of the Secretary of State communicated to the Darbar in a letter No.4851/161-89 dated 30th October 1899 from the First Assistant Resident. The orders were as follows: "Her Majesty's Secretary of State for India has been pleased to agree to the proposal that the Mysore Government shall

put by at once such a sum, in Indian Government Promissory Notes, as will amount, if allowed to accumulate at compound interest, to a sum of 180 lakhs of rupees on the 1st March 1936. This proposal is agreed to on the further understanding that if, through a fall in the rate of interest or in exchange, or from any other cause, it becomes necessary at any time to increase the amount of the investment, the Mysore Government will at once take the requisite steps." Accordingly the present worth calculated to amount to Rs.180 lakh on 1st March 1936 was invested in the form of Government of India Promissory Notes lodged with the Comptroller-General. The securities of the Sinking Fund are now in the custody of the Controller of Currency, Calcutta. I append a statement showing the amount now to the credit of the Sinking Fund. It will be seen that the face value of the holding is Rs.110 lakhs and its approximate market value is about -- Rs.71$\frac{1}{3}$ lakhs. As I have stated in para 6 supra, the amount required for buying up the whole balance of the loan is about Rs.68$\frac{1}{3}$ lakh

8. I may sum up the factors which recommend immediate action for conversion of the rupee paper into sterling securities and if possible for making the sterling investment in the Debenture Stock itself:--

(i) The Stock is selling at a large discount and the Darbar's liability to redeem it at par will be reduced, if it can be bought up at the present price.

(ii) The present rate of exchange is favourable for conversion of rupee securities into a sterling investment, and

(iii). The amount required for purchasing the whole balance of the loan is available in the Sinking Fund already accumulated, and

(iv). The Darbar will avoid the risks involved in the conditions imposed by the Secretary of State, namely that they should increas if the amount of the investment/through a fall (1) in the rate of interest or (2) in exchange or (3) from other causes the accumulated amour is found to be less than what is required for redeeming the loan.

9. Two conditions are essential for realising the advantages referred to in the preceding para, namely,

(1) The Government of India pronotes held to the credit of the Sinking Fund have to be sold and the proceeds remitted to London and

(2) The Debenture Stock itself has, if possible, to be purchased without allowing its price to go up.

In both these attempts the Darbar reque the assistance of the Government of India and the Secretary of State.

10. The present prices of the Government of India 3, 3½ and 4 per cent. pronotes in which the Sinking Fund is now invested are very low and it would further depress the market, if large quantities of these notes are offered fo purchase by the public. The Government of India may not also approve of placing the whol holding of the Sinking Fund on the market and contributing to the further depreciation of th pronotes. Besides, the Darbar would lose if the prices go down still further and there is also the uncertainty of finding purchasers in time. I may add that a large part of the --

3, 3½ & per cent. pronotes of the Sinking Fund was purchased at high prices in the past and the Darbar have lost heavily by the depreciation that has already occurred and they would like to save themselves the further loss which would, in all probability, result by throwing on the market over a crore of rupees of the pronotes. In these circumstances, I would propose that the Government of India may very kindly help the Darbar by taking over for the Paper Currency Reserve the Sinking Fund investment. The purchase will, of course, be at the present market prices of the pronotes. All that the Darbar want is that their Sinking Fund holding should not be offered for sale to the public in the market as such a step would further lower the prices of the notes and also indefinitely prolong the period for sales. The price for the rupee securities purchased on behalf of the Paper Currency Reserve may be given in the form of an equivalent amount of British Treasury Bills held in London to the credit of the same Reserve. The conversion into sterling of the rupee proceeds of the pronotes sold will also be at the current rate of exchange. The arrangement proposed by the Darbar will not put the Government of India to any loss or inconvenience and their request is only for being given in London British Treasury Bills of the Paper Currency Reserve in exchange for the rupee securities of the Sinking Fund to be taken to the same Reserve in India, the exchange being made at the market quotations of the securities and the current rate of exchange. If the request of the Darbar is

is kindly complied with, they will be enabled to dispose of their Sinking Fund holding and provide funds in London for purchasing the Deben-ture stock itself or some other approved sterlin securities. The amount held in British Treasury Bills on account of the Paper Currency Reserve is very large and a small part of it may kindly be given to the Darbar on the conditions propose which do not entail any loss or inconvenience or the Government of India. From the point of view of the Paper Currency Reserve, the transactions only amounts to the substitution of rupee for sterling securities in respect of a small part of the Reserve and the transfer of the part from London to India. In such circumstances, the Darbar hope that their request will be kind-ly complied with by the Government of India.

11. As regards the second condition referred to in para 9 supra, the Darbar would like to - leave the arrangements for purchase of sterling securities in the hands of the Secretary of Sta For reasons stated in para 4 supra, they would like if possible, to buy the debenture stock it self or if it is impracticable to get the whole of it, to purchase some other sterling security which is now selling at a discount and offers the advantage of redemption at or above par about the year 1936. There is another debe-ture stock of the late Southern Mahratta Railwa Company which is quoted in the market at the -- same price as the stock of the Mysore Railway Loan and it is an issue which appears to be not redeemable before 1938, i.e., only two years - later than the year in which the Mysore Railway Loan can be redeemed at the option of the Dar-bar. I believe this Stock offers all the ad-vantages

advantages of that of the Mysore Railway Loan itself and I would therefore suggest the desirability of purchasing it for the balance for which stock of the Mysore Loan is not availabl

12. I shall now summarise the requests of t the Darbar:--

1. The Government of India pronotes of the Mysore Railway Loan Sinking Fund held by the Controller of Currency may be purchased at market rates on behalf of the Paper Currency Reserve ^ the Govt of India and the price therefor paid in British Treasury Bills, at their present price and at the current rate of exchange.

2. The sterling amount thus made available in London may be used for purchasing, preferably, the debenture stock of the loan itself, or if it is not possible to buy any part of this stock, some other sterling security offering the same advantages as this stock. Vide para 11 supra. If approved, the Southern Mahratta 4 per cent. debentures 1938 may be purchased for the balance for which the stock of the Mysore Railway Loan may not be available, as they are quoted at the same price and seem t offer the same advantages.

3. Such action as is considered necessary may be taken to prevent the price of the debenture stock going up on account of the demand o the Darbar for buying it.

4. It may take some time to buy the Debenture stock in London, but the sale of whole of the Sinking Fund investment for an equivalant quantity of the British Treasury Bills of the Paper Currency Reserve may be kindly ^ arranged for immediately so that the Darbar may take advantage of the present rate of exchange.

5. In view of the uncertainties of the future rate of exchange and of the price of debenture stock, very early orders may be passed on the Darbar's request and action taken to enable the Darbar to get the advantage which the current conditions of the exchange and security markets offer.

13. The Darbar would like to briefly allude to the circumstances in which this Loan was contracted to show that their present request is deserving of sympathetic consideration by the Government of India and the Secretary of State. The Loan was the result of the hypothecation of the Mysore Railway to the late Southern Mahratta Railway Company and the arrangement under which the Darbar were required to close their Railway Department and hand over the Railway to the Company was not agreeable to them and it had to be accepted as the Government of India insisted upon it. The working of their Railways by the Company was not also in the financial interests of the Darbar as more than once pointed by the late Sir Seshadri Iyer. A part--Rs.68½ lakhs--of the Loan was also paid to the Government of India in discharge of the Famine Debt of Rs.80 lakhs owed by the Darbar. This loan was repayable in instalments convenient to the Darbar and its payment in one instalment was also disadvantageous to the ~~Darbar~~. The Famine Debt payable by the Darbar in India was discharged in London from the proceeds of this Loan and the present request of the ~~former~~ Darbar is for the payment of about the same amount in London against a corresponding transfer of rupee securities in India to the Paper Currency Reserve. For convenience of reference, I append extracts from

from communications of the late Sir Seshadri Iyer, to your predecessors which show in what circumstances the loan was raised and how it was held to be not in the interests of the -- Darbar. When the loan was raised in 1886 the rate of exchange was about 1s.6d. and subsequently it fell gradually to 1s.1d and during all this period of low exchange the Darbar had to bear the heavy loss involved by the payment in depreciated rupees of interest charges on this sterling debt. Now there is an opportunity for the Darbar to obtain some set off for the disadvantages entailed by the sterling debt they had to contract under the orders of the Government of India and the Secretary of State and they accordingly request these authorities to very kindly help them by complying with the requests submitted in para 12 supra.

14. The Hon'ble the Resident in Mysore is one of the trustees of the Sinking Fund and the above proposals made in the interests of the Fund will, I hope, receive your approval. The Darbar will be highly obliged if you will kindly place their requests before the Government of India with your strong support and obtain their very early orders for compliance with them.

Yours sincerely,

21.11.19

Dewan of Mysore

19.11.19

Statement of securities of the Sterling Railway Loan Sinking Fund.

Kind of security.	Face value.	Cost of purchase.	Present Market value.	Remakks. Present market rate.
	Rs.	Rs.	Rs.	
3 %	10,66,100			59 %
3½ %	95,77,900			65 %
4 %	3,50,000			81 %
Total	1,09,94,000	1,02,82,846	71,38,134	

Extract from Note by Mr. K. Seshadri Iyer, C.S.I., sent with his letter No.A.A. dated 8the February 1884 to J. B. Lyall, Esq., Resident in Mysore.

"In November 1883, Mr. Hope, Public Works Department Member of the Viceregal Council, paid a visit to Mysore. There was a conference at the Residency, at which the general financial condition of Mysore, the enhanced subsidy and the Famine Debt came under discussion. Mr. Hope, a day later, suggested through the Resident, Mr. Lyall, 1stly a hypothecation of the State Railway to the Southern Mahratta Railway Company for its cost, upon the condition of the company finding the capital required for the extension to Harihar and 2ndly, the payment of the Famine Debt out of the money to be raised by the hypothecation.

"I explained to Mr. Lyall that the proposed transaction would be highly distasteful to the Durbar.....

Extract from D.O. letter from Mr. J. B. Lyall, Resident in Mysore, to Mr. K. Seshadri Iyer, Dewan of Mysore, dated Virajendrapet, the 28th October 1884.

**

"I am sorry that the views of the Government of India which I am communicating are not more in accordance with the wishes which I believe that His Highness the Maharaja and you yourself have entertained. It appears to me that the only prudent course which the Darbar can take, situated as they are, is to accept the solution which the Government of India advises. I sincerely believe that the Darbar will hereafter be glad of having done so, and the Government of India will deal liberally with Mysore, if the measures which that Government think necessary are frankyly adopted....."

Extract from D. O. Letter from Mr. J. B. Lyall, Resident in Mysore, to Mr. K. Seshadri Iyer, Dewan of Mysore, dated Coorg, the 2nd November 1884.

"You will have had time by now to consider fully the letter I sent you by Major Wylie. I have been thinking over the matter much since, and am the more persuaded that the policy which the Government of India advise is right, though the manner of imposing it must be disagreeable to the Darbar. As to this I think the Darbar should consider that supposing the Government of India to be fully persuaded that their view was the right one, they can hardly be blamed for using all the power which circumstances give them to enforce it. By agreeing with a good grace to accept in this matter the advise of the Government of India, the Darbar will win the -- right to expect favourable consideration in other matters...

Extract from D.O.letter from Mr. K. Seshadri Iyer, Dewan of Mysore, to Mr. J. B. Lyall, Resident in Mysore, dated November 1884.

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"If, however, the Government of India should think that we must not run the risk of a possible failure to obtain the required loan in the open market, we are quite prepared to accept what H.E. the Viceroy approves as best in the interests of Mysore. The Darbar has no intention of acting in any way contrary to the advice of the Government of India, and are prepared to accept Mr. Hope's scheme provided that it does not place them financially in any worse position than they are at present. Mr. Hope's scheme in its present form applies equally to 2 distinct sections of the same Railway system:--

(1) The 141 miles already constructed; and,

(2) The 158 miles which remain to be constructed.

"The scheme is in every way fair and reasonable in so far as it applied to the second section, but as regards the first section, it places us in a somewhat unfavourable situation by requiring us to repay the Famine debt bearing interest at 4 per cent out of the money to be obtained from the Southern Mahratta Company by means of a guarantee of 3½ per cent, interest in addition to ¼ net Railway earnings. The British debt being thus liquidated, Mysore's position remains unaltered only so long as the net Railway earnings do not exceed 2 per cent on the capital; for as soon as the net earnings exceed that rate, Mysore begins to pay more than 4 per cent, on the capital repaid to it by the Southern Mahratta Company. When the Railway earns 3 per cent. 4 per cent. 5 per cent. and so on on capital outlay, Mysore pays respectively 4¼ per cent, 4½ per cent. and 4¾ per cent. and so on, on what it receives to repay a debt bearing only 4 per cent. interest. It will thus be clear that by accepting Mr. Hope's scheme as regards the first section, Mysore will substitute in the place of its debt to the British Government, bearing interest at 4 per cent. and repayable within a definite period, debt to the Southern Mahratta Company bearing a higher rate of interest, which gradually increases as Railway earnings improve together with an unsatisfactory uncertainty as to the State's ability to redeem the liability for such annual payments at the appointed periods of re- urchase."

Extract from D. O. letter from Mr. J. B. Lyall, Resident in Mysore, to Mr. K. Seshadri Iyer, Dewan of Mysore, dated Mercara, 6th November 1884.

"The Government of India seem to me to hold that if the Darbar are honestly desirous to fulfil their engagements to the British Government so far as may be practicable, and at the same time to extend their Railway, then they ought to accept the solution which Mr. Hope's scheme provides. I think this view is right and the result of rejecting it willbe bad for Mysore....."

Extract of Appendix A printed on PP.33 - 38 of the compilation regarding the Enhanced Mysore Subsidy (copy enclosed) was also sent with the Residency letter as an enclosure.

Another copy put in the file

No. 455/E.I.d.o
With Telegram

22-11-19

DRAFT.

Dear Mr. Banerji,

In his letter to you dated 4th Nov. 1919. Mr. M.K Krishna Rao alluded to a proposal for the purchase, if possible, of the whole of the Debenture stock of our sterling Railway Loan of £ 1,200,000. I send herewith a copy of the letter addressed by me to the Resident in the matter. The case is clearly explained in this letter and you will see from it what advantages we can obtain if we can dispose of the Rupee Securities of the Sinking Fund, remit the proceeds to London, and buy up the stock. Messrs Coutts & Co. have been directed to purchase as much of the stock as may be had in the market and if the Secretary of State agrees to our proposal, he can also arrange for its purchase. Prompt action is in any case necessary to realise the benefits of the high rate of exchange and the low quotations of the stock and it may become necessary to request you to interview Messrs Coutts & Co. and the authorities of the India Office to expedite purchases. Before, however, I can ask you to take any action in the matter, I shall have to await the reply of the Government of India to my letter to the Resident and as soon as I hear from the latter, I shall communicate with you, if necessary, by cable, and request you to take such action as the circumstances may call for to expedite purchases. In the meantime I am writing this to you to keep you acquainted with the action that is being taken to extinguish, if possible, the Sterling debt, under the prevailing favourable conditions.

Yours sincerely,

21-11-19

A. R. Banerji, Esq., M.A., I.C.S., C.I.E.

CONVERSION OF THE RUPEE SECURITIES OF OUR RAILWAY SINKING FUND INTO STERLING SECURITIES.

We wanted to realise our rupee securities and remit the proceeds to London at the favourable rates of exchange offered by the sale of Reverse Bills at rates fixed with reference to 2 sh. (gold) per rupee. The sale of as large a quantity as about one crore of 3 %, 3½ %, and 4 % paper would have required a long time and there was, besides, no certainty of there being buyers for it. We accordingly proposed that the Government of India might take over our sterling fund investment in rupee securities for their paper currency reserve at market rates and remit the proceeds at the favourable -- rates of exchange offered by Reverse Councils. The Government of India have now stated that they cannot take over our securities on behalf of the paper currency reserve. They have stated that compliance with our request would increase the amount of long-term securities held as paper currency reserve beyond the limit permitted by the legislature. The accounts of the Department of Issue of Paper Currency published periodically do not, however, shew that the addition of a crore to the holding of the paper currency reserve is impossible. The latest account is that for the period ending the 22nd August 1920. The rupee securities held amounted to Rs.47,33,30,946. Of this as much as Rs.39,43,00,000 are Indian Treasury Bills and the nominal value of long term securities was only Rs.10,20,81,500. The existing currency law permits as much as 20 crores of the fiduciary portion of the reserve being held in securities issued by the Government of India. The Exchange and Currency Committee have not proposed any reduction in the amount of this portion of the fiduciary reserve. (Vide paragraph 79 of their Report.) It is not, therefore, clear

how it has been stated by the Government of India that the addition of about a crore to the holding of the Paper currency reserve is not possible. If it is possible, as it appears to be, we may press for the rupee securities of our Sinking Fund being taken over for the paper currency reserve.

2. Considering the rates which money is commanding and is likely to command in the future, it is very unlikely that the capital value of 3 %, 3½ % and 4 % will increase for a long time to come. If we can dispose of this holding at even the present market rates, we shall save the further depreciation which is likely to occur in its capital value.

3. The Government of India, in spite of our repeatedly bringing to their notice the fact that the rates for Reverse Bills were going down, did not decide the question placed before them and now, when the rate has fallen even below 2 shillings, they tell us that we have to help ourselves by selling the securities in the open market in instalments of about Rs.20 lakhs every year and remit the proceeds to London at the rates of exchange prevailing on the dates of realisation. For remitting the funds to London, we should wait for favourable opportunities when rates are above 2 shillings. In the meantime, if we are able to realise the rupee securities, we may keep the proceeds in short-term deposits or invest them in short-term Indian Treasury Bills, for remittance when the exchange rate is favourable.

4. It is necessary to point out to the Government of India the loss caused to us by the delay in their decision. They have deprived us of the most favourable opportunity that ever offered itself to us for making

remittance

remittance to London at as high a rate as about 2 s. 11d. the rupee. The Reverse Bills by which our remittance would have had to be made were being sold by the Government of India themselves and they could easily have helped us by selling such bills for remittance of our funds to London.

1-9-20

The Residency,

D.O. No.6260. Bangalore, 22nd July 1920.

My dear Dewan Sahib,

Please refer to your demi-official letter No.454/E.7., dated the 22nd November 1919, regarding the investment of the Mysore Railway Debenture Sinking Fund. I am desired to state that the Government of India have given the matter their careful consideration but they regret that they are unable to take over, for their Paper Currency Reserve, the Government securities of 3, 3½ and 4 % loans which are held by the Durbar in the sinking fund. The constitution of the investments in the Paper Currency Reserve is determined by Indian legislation, the holding of long term securities is subject to definite limitations, and any increase in the amount which may be held of such securities in the Paper Currency Reserve would need further legislation. This objection apart, there is the further objection that to the extent to which long term rupee investments are held in the Paper Currency Reserve these must ordinarily represent securities created ad hoc, and it will be opposed to the practice of the Government of India to hold such securities by purchase either in the market or from any particular holder.

The Government of India therefore regret that they are unable to accept the proposal put forward by the Durbar.

All that appears to be possible is that, as settled in 1914, rupee paper held in the Durbar's fund should actually be sold out in India, and purchases of sterling securities made by the Secretary of State, the total amount of rupee securites converted into sterling not exceeding 20 lakhs in any year. The sales in India and the purchases in England would have to be carried out gradually at the discretion of the Controller of Currency and the Secretary of State respectively, the investments in England being made as far as possible in debenture stock of the Mysore Railway or the Southern Mahratta Railway, and the proceeds realised in India being treated as remitted to

England

England at the Telegraphic Transfer rate of the dates of realisation of the proceeds or of payments by the Secretary of State for purchase of sterling securities, whichever is more favourable to the Durbar.

The Resident trusts that these proposals will be agreeable to the Durbar.

Sincerely yours,

Sd. T. J. Tasker,

for Major Plowden.

Sirdar M. Kantaraj Urs, C.S.I.,

Dewan of Mysore.

---:0:---

"C O P Y"

V. Krishnan

REGISTRAR, RESIDENT'S OFFICE.

WTB 31/8

DRAFT. D.O. No. 558

Dy 13.2.20

Dear Mr. Cobb,

May I invite reference to my demi-official

(Flag S.) letter No. 454 dated the 22nd November 1919* on

the subject of remittance to London of the Durbar's

Railway Sinking Fund which is now held in rupee

paper ? Since I wrote to you, the exchange rate

has moved much in favour of the proposed transfer

of the Fund from India to London and the Durbar

are anxious to take advantage of the prevailing

high rate of exchange so favourable to the remittance

of funds from India. I shall be ~~much~~ much obliged

if you can kindly arrange for the early settlement

of the matter.

Yours sincerely,

13.2.20

Dewan.

11.2.20

The Hon'ble Mr. H.W.Cobb, C.S.I.,C.I.E.,I.C.S.,

British Resident in Mysore, BANGALORE.

DO No 650

27 3.20.

Q+ 55-Q-18

DRAFT D.O.

Dear Mr. Barton,

May I invite reference to ~~the correspondence ending with~~ my letter dated 27th Feb. ult. my demi-official letter No.558 dated 13th February 1920 to Mr Cobb. on the subject of remittance to London of the Durbar's Railway Sinking Fund which is now held in rupee paper. In ~~this~~ the second letter I stated that the exchange rate had moved much in favour of the proposed transfer and that the Durbar were therefore anxious to take advantage of the prevailing high rate of exchange so favourable to the remittance of funds from India. I do not know in what stage the representation of the Durbar is. In the meantime, however, conditions of the exchange market for the Council are moving against the Durbar. I would invite attention in this connection to two points ascertained from the recent discussions in the Imperial Legislative Council which bear upon the proposal of the Durbar. It has been announced that steps are being taken to bring the market rate and the rate for Reverse Councils closer together. The rate is going down and the Durbar are anxious to arrange for their remittance before it reaches a still lower level. It has already declined from 2/11 d. to 2 sh. 7 5/16 d.

The Rupee Sinking Fund and Sterling securities

It has also been proposed to invest in rupee securities a portion of the Paper Currency Reserve hitherto held in British Treasury Bills as it has had to be transferred to India under the system of the sale

of

of Reverse Councils. The Durbar would request that as already represented by them the rupee securities of their Railway Sinking Fund held by the Controller of Currency may be taken over on behalf of the Paper Currency Reserve and that the proceeds may be permitted to be remitted to London at the rate at which Reverse Councils are issued. I request you to be so good as to place this representation of the Durbar before the Government of India and obtain their very early and favourable orders. The circumstances in which the Durbar desire to avail themselves of the favourable opportunities afforded by the prevailing ~~favourable~~ conditions of the Exchange and Security markets have been explained at length in my letter No. 454 dated 22nd November 1919 and they earnestly request the Govt. of India to help them in the matter.

Yours sincerely,

Dewan.

any further delay in dealing with this proposal may prevent the Durbar from availing themselves of the opportunity of securing the relief of the most advantageous terms, especially as all the money required is not available.

I therefore request that you will be kind enough to bring this matter to the notice of the Govt of India the urgency of the matter & kindly return their orders by telegram if possible.

27.3.20

23.3.20

...FY No. 440

19 – 20

Section 97 BANGALORE.

File No. 55-19

Serial 33

22nd July 1920

Rec'd 22.7.20 D.O. No. 6260 N. Delhi

My dear Dewan Sahib

Please refer to your demi-official letter No.454/E.7, dated the 22nd November 1919, regarding the investment of the Mysore Railway Debenture Sinking Fund. I am desired to state that the Government of India have given the matter their careful consideration but they regret that they are unable to take over, for their Paper Currency Reserve, the Government securities of 3, 3½ and 4 % loans which are held by the Durbar in the sinking fund. The constitution of the investments in the Paper Currency Reserve is determined by Indian legislation, the holding of long term securities is subject to definite limitations, and any increase in the amount which may be held of such securities in the Paper Currency Reserve would need further legislation. This objection apart, there is the further objection that to the extent to which long term rupee investments are held in the Paper Currency Reserve these must ordinarily represent securities created ad hoc, and it will be opposed to the practice of the Government of India to hold such securities by purchase either in the market or from any particular holder.

The Government of India therefore regret that they are unable to accept the proposal put forward by the Durbar.

All that appears to be possible is that, as settled in 1914, rupee paper held in the Durbar's fund should actually be sold out in India, and purchases of sterling securities made by the Secretary of State, the total amount of rupee securities converted into sterling not exceeding 20 lakhs in any year. The sales in India and the purchases in England would have to be carried out gradually at the discretion of the Controller of Currency and the Secretary of State respectively, the investments in England being made as far as possible in debenture stock of the Mysore Railway or the Southern Mahratta

Railway, and the proceeds realised in India being treated as remitted to England at the Telegraphic Transfer rate of the dates of realisation of the proceeds or of payments by the Secretary of State for purchase of sterling securities, whichever is more favourable to the Durbar.

The Resident trusts that these proposals will be agreeable to the Durbar.

I have the honour,

Sir,

Your most obedient servant,

for Major Bowring

Sirdar M. Kantaraj Urs, C.S.I.,

Dewan of Mysore.

Pol. 5-14 & 8/11/1
7 55-19-34

To D.A.R.

Sir,

I am directed to acknowledge the receipt of your letter no 6260 dt 22.7.20 Conveying the orders of the Govt of India regarding proposal of the Durbar for Converting the Sterling Securities of their Pry Loan Sinking Fund Sterling securities

Considering the fact that the Value of money is rising the probability is that Securities Carrying interest at 3, 3½ & 4% and not redeemable on any particular date will continue to depreciate further and the Durbar accordingly agree to the proposal made in para 3 of your letter that such rupee securities of the Fund may be sold. The sale proceeds need not however be immediately remitted to London but may be invested as short term deposits in one of the Presidency Banks or in Indian Treasury bills for realising the best return possible and this arrangement of temporary investment may continue until a favourable opportunity

3 encl. 1 each

for making the remittance offers. As it has been decided by the Govt of India to fix the exchange value of the rupee at 2sh it may be expected that the market rate will reach that level when the abnormal conditions that have made the course of exchange so uncertain for some time past cease to operate. The Bombay do not therefore desire to remit the sale proceeds to London until the rate of exchange rises to 2sh or more. In the meantime the sale of securities may be arranged for in such manner as the Controller of Currency may consider desirable for obtaining the best possible price for them. That officer may be requested to keep the Bombay Comptroller advised of the sales made, the prices secured and the temporary investments made from time to time of the proceeds pending remittance to England. The question of how the remittance will be effected will be the subject of further communication.

Yours sincerely
H Kisch

12-10-20

Private

Dear Hilton,

DIARY No. 2586

1919 – 1920
Section: G7
File No. 55-19
Serial No: 35

THE RESIDENCY,

BANGALORE.

D.O. No. 1074

Dated 6th December 1920.

Dear Sir,

I am desired to refer to your letter No. Pol.514, dated the 8th November 1920, regarding the investment of the Mysore Railway Debenture Sinking Fund. In reply I am to invite your attention to my demi-official letter No. 6260, dated the 22nd July 1920, and to point out that the proposals now made by the Durbar seem to - conflict with the suggestion of the Secretary of State that only 20 lakhs of rupees of Indian Securities should be placed on the market each year. The Resident would be glad if the Durbar - would kindly explain the position. If they wish the whole of the Sinking Fund Securities to be realised within the next 2 or 3 months it would be better to say so definitely and at the same time to give reasons indicating that the Secretary of State's proposals prejudicially affect the Durbar.

Yours sincerely

M. N. Krishna Rao, Esq., B.A.,
Secretary to the Government of
His Highness the Maharaja of Mysore,
Finance Department.

AVR

DRAFT D.O.

D.O.
Rol 658/9-25-19-36
17th December 1920
B/ Mr. M. N. Krishnarao

Dear Sir,

I have received your D.O.No. 10741 dated 6th December 1920 regarding ~~the investment of~~ the Mysore Railway ~~Debenture~~ Sterling Loan Sinking Fund.

It will be seen from my letter No. 514 dated the 8th November 1920 that there is no proposal to offer any particular -- quantity of ~~the~~ Rupee Securities held to the credit of the Fund for sale in any specified period. What has been proposed is that "the sale of securities may be arranged for in such manner as the Controller of Currency may consider desirable for obtaining the best possible price for them". What quantity of securities may be offered for sale on any occasion is, therefore, a point to be settled by the Controller of Currency, in view of the prevailing conditions of the security market at the time. The object of the Secretary of State in suggesting that the total amount to be disposed of should not exceed 20 lakhs in any year is apparently to prevent the depression in the price of the securities by throwing a large quantity of them on the market. The Durbar stand to lose by such depression and they have no desire to cause it. Their only object is to get the best price, which can be had for their securities, which are already very heavily depreciated. As stated in my letter of the 8th November 1920, the Durbar fear that as the tendency is in the direction of increase of interest rates, --

there may be a further depreciation in the capital value of the Rupee securities of the Fund and they are anxious to save such further loss. The Durbar have no desire to dispose of the securities in the next two or three months. The sale of securities may be arranged in such a way as will serve the best interests of the Sinking Fund and as already requested, the disposals from time to time may be advised so that the Durbar may offer their suggestions as occasions may require. The sale proceeds may, as already requested, be invested in short-term deposits in one of the Presidency Banks or in Indian Treasury Bills for realising the best return possible on them and ~~for~~ remittance to London when the rate of exchange rises to 2 shillings or more.

~~I have, etc.,~~

Mull 9-12-20
Financial Secretary to Govt.

Draft D.O. No.483/67-55-19-38
2.2.21

Dear Mr. Barton,

May I invite reference to the correspondence ending with D.O.No.Political 658 dated 17th December 1920 to Major Plowden -- relating to the sale of the rupee securities belonging to the Durbar's Sinking Fund in the custody of the Controller of Currency. The value of the 3½% Pronotes has recently risen and after having fallen so low as ~~xx~~ Rs.50 per cent. it now stands at about Rs.58 per cent. The present is therefore a favourable opportunity for selling these securities which form the bulk of the Sinking Fund holding. I shall therefore be much obliged if this fact is kindly brought to the notice of the Controller of Currency so that he may arrange for the sale of as much as possible of the securities when the price continues at about the present level.

Yours sincerely,

1-2-21

Dewan

21-1-21

G. R. S. III-21

General and Revenue Secretariat.	File No.	of 19
Serial No.		

D.O.No. 1486

W3247

G755-19-38 1

THE RESIDENCY,
BANGALORE.
9th February 1921.

Dear Sir Kantaraj Urs,

I am desired to acknowledge the receipt of your demi-official letter No.483, dated the 2nd February 1921, regarding the investment of the Mysore Railway Debenture Sinking Fund, and to say that the remarks of the Durbar have been communicated to the Government of India.

Yours sincerely,

J. Bowring

Sirdar M. Kantaraj Urs, C.S.I.,
Dewan of Mysore.

AVR

GVV.

GJ 55-19-39

D.O. No. 1488 / 161/1889 E-1

THE RESIDENCY,
BANGALORE.

9th February 1921.

Dear Mr. Kaulaz Avs,

I am desired to invite a reference to the correspondence ending with my demi-official letter No. 1486, dated the 9th February 1921, regarding the investment of the Mysore Railway Debenture Loan Sinking Fund.

2. The Government of India intimated by telegram to the Secretary of State for India on the 2nd July 1920 that the Durbar had asked that the half-yearly interest which had accrued in May 1920 on rupee investments in the Fund might be invested in Sterling Securities and that it was understood that the Durbar held 3½ per cent. India Sterling Stock which they offered for purposes of investment of the Sinking Fund. The Government of India further stated that the stock in question would be transferred to the Secretary of State to be held on behalf of the Fund at the market rate in force on the day of transfer, the rate of exchange being the T.T. rate on the same day.

3. On the 7th October 1920, the Government of India forwarded to the Under Secretary of State for India, 3½ per cent. sterling Bearer certificates of the face value of £13,500/- as shown in the annexed statement purchased from the Durbar on account of the Mysore Debenture Loan Sinking Fund. They informed the Under Secretary at the same time that, as the securities were in the bearer form, no formality was necessary to effect the transfer to the Secretary of State, and they asked that they might be held by him on account of the Fund, investments being made from time to time from the dividends as they accrued.

4. In order to avoid liability to British Income Tax on investments made on account of this Fund, the Secretary of State has decided to invest the interest on the £ 13,500/- India 3½ per cent. Sterling Bearer Certificates, in 5 per cent. War Bonds 1928 which are redeemable at 105 and would therefore give a

substantial

I am minded to invite a reference to the occupying power
[illegible] January 1917, requesting the interest of the Japan Military
[illegible] with Count-Admiral Jofuce [illegible], acted as
[illegible] Japanese Loan Floating Fund.

- The government of India objected by telegram to the -
[illegible] of visits for Indian or the Hong Kong Indian that the current
[illegible] made that the Anglo-Country interest rise [illegible] in
[illegible] on Japan investments in the Fund might be diverted if -
[illegible] according that that is a concession which the Japan
[illegible] of [illegible] years. India Specially [illegible] opinion for
[illegible] of the Floating Fund. The Provisions of
[illegible] the Japanese editor that the [illegible] in question for
[illegible] to the accordance of Japan to be held on account of the Japan
[illegible] the Japanese being the U.S. [illegible] on the Japan war.

- On the 7th October 19[illegible], the Government of India [illegible]
the Under Secretary of State for India [illegible] Post Card, enclosing
[illegible] certificates of the free coins of [illegible] to them in
the Chinese Customs Purchased from the Japanese on account of the
[illegible] Japanese Loan Floating Fund. This Investment was Under
[illegible] of the Japan Government, to the Post Office Savings Bank
of the Country of Japan, one Sixty Million Yen [illegible] the
Japanese Post, as [illegible] was necessary to [illegible] the
[illegible] Japanese Government.

c. It rests [illegible] to Britain [illegible] an Investment
[illegible] on Japan's [illegible] this Fund, the decision by [illegible]
[illegible] that the Japanese [illegible] Japan [illegible].

[illegible] Post Card [illegible] Japan [illegible] -

substantial premium on redemption. It is said that National War Bonds are among the few British Securities, interest on which is free from income tax when the Securities are in the beneficial ownership of persons not ordinarily resident in the United Kingdom, and that this proviso applies to foreign States also.

5. I am to enquire whether the Durbar are willing to leave to the discretion of the Secretary of State the choice of the investments in which sums accruing to the Fund shall be held.

6. I am to add that the Accountant General, India Office, will furnish a statement showing the position of the Fund on the 31st March every year for the information of the Durbar.

Yours sincerely

J. Brownlow

Sirdar M.Kantaraj Urs, C.S.I.,
Dewan of Mysore.

CVV. AVR

Details of Government of India Sterling Securities sent to the Controller of Currency, with Letter No.137-Books, dated 4th August 1920. 3½ per cent. Sterling Bearer Bonds.

Serial No.	Number on each Bond.	Amount.	No. of coupons attached.	Total value of coupons.	Total.	Remarks.
1.	A 07359	£ 100/-	(159-164) 6	£ 5-5-0	105-5-0	
2.	A 06097	£ 100/-	6	£ 5-5-0	105-5-0	
3.	A 07308	£ 100/-	6	£ 5-5-0	105-5-0	
4.	A 07309	£ 100/-	6	£ 5-5-0	105-5-0	
5.	A 07310	£ 100/-	6	£ 5-5-0	105-5-0	
6.	C 08985	£ 1000/-	6	£ 52-10-0	1052-10-0	
7.	C 09148	£ 1000/-	6	£ 52-10-0	1052-10-0	
8.	C 09314	£ 1000/-	6	£ 52-10-0	1052-10-0	
9	C 09315	£ 1000/-	6	£ 52-10-0	1052-10-0	
10.	C 09368	£ 1000/-	6	£ 52-10-0	1052-10-0	
11.	C 09370	£ 1000/-	6	£ 52-10-0	1052-10-0	
12.	C 09414	£ 1000/-	6	£ 52-10-0	1052-10-0	
13.	C 09387	£ 1000/-	6	£ 52-10-0	1052-10-0	
14.	C 09817	£ 1000/-	6	£ 52-10-0	1052-10-0	
15.	C 09847	£ 1000/-	6	£ 52-10-0	1052-10-0	
16.	C 09848	£ 1000/-	6	£ 52-10-0	1052-10-0	
17.	C 09849	£ 1000/-	6	£ 52-10-0	1052-10-0	
18.	C 09943	£ 1000/-	6	£ 52-10-0	1052-10-0	
	Total	£ 13,500/-	108	£ 708-15-0	14208-15-0	

3788-19-40

Draft D.O. No. 529 dy

15/2/21.

To

Major C.T.C.Plowden, I.A.,
First Asst. to the Hon'ble
the British Resident in Mysore,

Dear Major Plowden,

I have your D.O. No. 1488 dated the 9th February 1921 regarding the investment of the Mysore Railway Debenture Loan Sinking Fund.

The 3½ % India Sterling Stock sold by the Durbar to the Sinking Fund may, as proposed, be transferred to the Secretary of State and held to the credit of the Fund. The interest earned by the Stock may also be invested, as proposed, in the 5 % War Bonds, 1928 which are redeemable at a premium of 5 %. I understand from the State Comptroller that some more stock has since been ~~sold~~ Sent to the Controller of Currency and that the Sterling holding is now about £ ~~29,300~~ £38700.

The Durbar are also agreeable to leave to the discretion of the Secretary of State the choice of investments in which sums accruing to the Sterling part of the Fund ~~with that authority~~ shall be held. They would, however, request that the investment

investment may be in short-term securities yielding the best return possible, free from tax. When a favourable opportunity offers, they also desire that the 3½ % Sterling Stock itself may be sold and the proceeds invested in a first class short-term security yielding the best return that can be had at the time of investment.

Arrangements may kindly be made as proposed, to furnish the Durbar with a statement shewing the position of the Sterling part of the Fund on the 30th June instead of on 31st March every year It will be convenient to the Durbar to have the statement made up at the end of their official year which ends with June.

Yours sincerely,

DEWAN.

10.2.20

Copy with Residency letter to the compiler for information & guidance. 10.2.20

D.O. no. 529/67 55-19-40

M y s-o r, e,

13th February 1921.
15

I have your demi-official letter No.1488 dated the 9th February 1921 regarding the investment of the Mysore Railway Debenture Loan Sinking Fund.

The 3½ per cent. India Sterling Stock sold by the Durbar to the Sinking Fund may, as proposed, be transferred to the Secretary of State and held to the credit of the Fund. The interest earned by the stock may also be invested, as proposed, in the 5 per cent. War Bonds, 1928 which are redeemable at a premium of 5 per cent. I understand from the State Comptroller that some more stock has since been sent to the Controller of Currency and that the Sterling holding is now about £38,700.

The Durbar are also agreeable to leave to the discretion of the Secretary of State the choice of investments in which sums accruing to the Sterling part of the Fund shall be held. They would, however, request that the investment may be in short-term securities yielding the best return possible, free from tax. When a favorable opportunity offers, they also desire that the 3½ per cent. Sterling Stock itself may be sold and the proceeds invested in a first class short-term security yielding the best return that can be had at the time of investment.

Arrangements may kindly be made as proposed, to furnish the Durbar with a statement shewing the position of the Sterling part of the Fund on the 30th June instead of on 31st March every year. It will be convenient to the Durbar to have the statement

made up at the end of their official year which ends with June.

Veer
19.2.21

Major C.T.C. Plowden, I.A.,
First Assistant to the Hon'ble
the British Resident in Mysore,
Bangalore.

No PR 5315 dt 22nd Feby/21
41
C7 55-19-

Copy of the above is forwarded with compliments to the Comptroller to Government for information and guidance with a copy of the Residency letter.

Draft By Order,
for Financial Secretary.

Keep this
for Herbert file
and send intimation
to Diwan with

DIARY No. 3885

THE RESIDENCY,

BANGALORE.

Dated 5 April 1921.

D.O. 3,300

I am desired to refer to your demi-official letter No.529, dated the 13/15th February 1921, regarding the investment of the Mysore Railway Debenture Loan Sinking Fund.

The Government of India have forwarded a copy of your letter cited above to the Deputy Financial Secretary, India Office, London, pointing out as stated by you that the Durbar are content to leave to the discretion of the Secretary of State the choice of investments in which sums accruing to the Fund shall be held. The Government of India have also drawn attention to certain other suggestions made by the Durbar which the Deputy Financial Secretary will no doubt take into consideration when making investments in future.

As requested in paragraph 3 of your letter, the Accountant-General, India Office, is being requested to furnish the statement showing the position of the sterling part of the fund on the 30th June instead of on the 31st March, every year.

Yours sincerely

Sirdar M. Kantaraj Urs, B.A., C.S.I.,

Dewan of Mysore.

SVR

BJ

3896

5.4.21

D.O. 3301

1979-1920

G7

55-19

43

THE RESIDENCY,
BANGALORE.

Dated 5th April 1921.

Dear Sir Kantaraj Urs,

I am desired to invite a reference to the correspondence ending with your demi-official letter No.483, dated the 2nd February 1921, regarding the investment of the Mysore Railway Debenture Sinking Fund.

The Government of India consider that the proposals of the Durbar would place undue responsibility on the Controller of Currency. Not only would the work be troublesome, but on general grounds of principle it would be undesirable for a Government officer to do what is really banking or broking business for an Indian State. Moreover such an undertaking might obviously lead to decidedly embarrassing consequences. In the circumstances the Government of India are of the opinion that the proper course is for the Durbar to entrust the work to the Imperial Bank of India - the securities continuing to be held by the Controller of Currency on behalf of the Mysore State.

Yours sincerely

Sirdar M. Kantaraj Urs, B.A., C.S.I.,

Dewan of Mysore.

G. R. S. III-2.

General and Revenue Secretariat.	File No.	of 19
Serial No.		

THE RESIDENCY,
BANGALORE.

Dated 7 May 1921.

In continuation of my demi-official letter No.3,300, dated the 5th April 1921, regarding the

1. Government of India Finance Department letter No.228-F., dated the 20th January 1921 (with enclosure).	Mysore Railway
2. India Office letter No.F.1856, dated the 8th March 1921.	Debenture Sink-
3. Government of India Finance Department letter No.966-F., dated the 24th March 1921 (with enclosure).	ing Fund, I am

desired to forward, for the information of the Durbar, a copy of the correspondence cited in the margin.

for Major Plowden.
AVR

Sirdar M. Kantaraj Urs., B.A., C.S.I.,
Dewan of Mysore.

G7 55-19-45

No.2275/PD dated 14th May 1921

Encl.

18 MAY 1921

146

The enclosures to this D. O. have been taken and filed in this office. These papers are intended to communicate to this office the action taken on this office communication forwarding the Sterling Securities to the Controller of the Currency for sale to the Sinking Fund.

Comptroller.

MSR/16-5

The Financial Secretary to the
Government of Mysore, Bangalore.

G. R. S. III-2]

General and Revenue Secretariat.	File No.	of 19
Serial No.		

DIARY No. 4768

THE RESIDENCY, BANGALORE.

Dated 28 June 1921.

File No. 55-19

In continuation of my demi-official letter No.4308, dated the 7th May 1921, regarding the Mysore Railway Debenture Sinking Fund, I am desired to forward for the information of the Durbar, a copy of the marginally noted letter from the India Office.

x

x

No.F.4397, dated the 28th April 1921.

for Major Plowden.

Sirdar Sir M. Kantaraj Urs., K.C.I.E., C.S.I.,

Dewan of Mysore.

INDIA OFFICE,
LONDON, S.W.1.
28th April 1921.

4397.

My dear Cook,

Mysore Debenture Sinking Fund.

Please refer to Nixon's letter on this subject No.966- dated 24th March 1921. The India 3½% Sterling Bearer Certificates of the face value of £ 2,100 received from the Government of India on account of the Sinking Fund have been deposited at the Bank of England and converted into Inscribed Stock to be held for "The Secretary of State for India in Council - Mysore Debenture Stock Sinking Fund Account".

The amount of the coupons due, for January and April, viz: £ 25.14.6 net, has been credited to the Fund.

Yours sincerely,
Sd. D.A.Barker,

The Hon'ble Mr. L.W. Cook, C.I.E.,
Secretary to the Government of India,
Finance Department,
Simla.

G. R. S. VI—(G/32]

SUBJECT.....

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Diary No. of letter replied to

General and Revenue Secretariat

( )

, the *191* .

Date of issue 4 July/'21

Signed by

Section 57

File No. 55-19

Serial No. 47

No. 75

Q. 4 July/21

To The Comptroller

Sir,

With reference to your letter no 22175/D.D. Dated 14.5.21. I am directed to forward herewith for information copy of letter No. F. 4397 dated the 28th April 1921 from the Indian office received with Residency D.O.No. 5570 D. 20.6.21. in the matter of the Mysore Railway Debenture Sinking Fund.

I have etc

over. 1130/6

for Secy

G. R. S. III—3]

ROUTINE NOTE.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

D.O. Fr. No. 19
28.9.21

D.O. No. 8551

THE RESIDENCY,
BANGALORE.

Dated 27 September 1921.

DIARY No. 8651

Subject:- Mysore Debenture Loan Sinking Fund

Dear Sir Kantaraj

With reference to my demi-official letter No.5510 dated the 20th June 1921, I am desired to say that, in future copies of communications received from the India Office regarding the Fund will be forwarded to the Durbar direct by the Controller of Currency.

Yours sincerely

J. Bowden

for Major Plowden.

Sirdar Sir M. Kantaraj Urs, K.C.I.E., C.S.I.,
Dewan of Mysore.

BJ

B.—Should routine notes be written on small slips the notes must be cipoed, or slips pasted on this form.